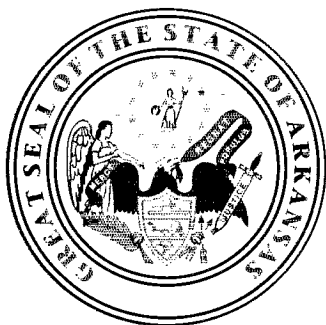


COMPREHENSIVE ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED JUNE 30, 1998



ARKANSAS





Governor Mike Huckabee



STATE OF ARKANSAS
OFFICE OF THE GOVERNOR

State Capitol
Little Rock 72201

Mike Huckabee
Governor

November 13, 1998

To the Citizens of Arkansas
and the Honorable Members of
the Legislature:

I submit to you the *State of Arkansas Comprehensive Annual Financial Report* ("CAFR") with pride in our accomplishments and commitment to move forward. This report, the fourth audited for the State of Arkansas (the "State"), is for the fiscal year that ended **June 30, 1998**. This report is an important part of our effort in timely and accurate financial reporting. It provides us a complete picture of the State's financial status and is an excellent means to meet continuing disclosure responsibilities to the national credit markets.

The State's 1996 and 1997 CAFRs represent significant milestones in Arkansas' efforts to continually improve its accounting and financial reporting practices as they were presented the Government Finance Officers Association's *Certificate of Achievement for Excellence in Financial Reporting*. This prestigious award represents an accomplishment of which I am quite proud. I am confident that the Department of Finance and Administration will continue to participate in this highly prestigious program.

My sincere thanks to the Department of Finance and Administration for its commitment to this project and to the other state agencies that cooperated to complete it.

Sincerely,

A handwritten signature in black ink, reading "Mike Huckabee", with a stylized flourish at the end.

Mike Huckabee
Governor



ACKNOWLEDGMENTS

Report prepared by the Department of Finance and
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Deputy Director/Commissioner of Revenues

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Special appreciation is given to Ron Johnson and Jess Setzler, Arkansas Educational Television Network, who assisted in the design of the cover and divider pages and to all personnel throughout the State, whose extra effort to contribute accurate, timely financial data for their agencies, made this report possible.

STATE OF ARKANSAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE FISCAL YEAR ENDED JUNE 30, 1998

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Introductory Section



Arkansas Educational Television Network (AETN) building, located at 1000 N. Main St., Little Rock, Arkansas, 2000.

Education in Arkansas is a lifelong experience. AETN is working with partners throughout the state to provide educational services to meet the needs of Arkansians, from pre-school children to older adults still seeking knowledge. The mission of AETN is to offer lifelong learning opportunities to all Arkansians, provide programming and services to improve and enhance the lives of Arkansas citizens, and illuminate the cultural heritage of Arkansas and the world.



STATE OF ARKANSAS

PRINCIPAL OFFICIALS

Elected Officials

Governor

Mike Huckabee

Lt. Governor

Winthrop Paul Rockefeller, Jr.

State Treasurer

Jimmie Lou Fisher

State Auditor

Gus Wingfield

Secretary of State

Sharon Priest

Attorney General

Winston Bryant

Land Commissioner

Charles Daniels

Legislative Branch

President Pro Tempore

Wayne Dowd

Speaker of the House

Bobby L. Hogue

Supreme Court

Chief Justice

W.H. "Dub" Arnold

Associate Justice

Robert Brown

Associate Justice

Annabelle Clinton Imber

Associate Justice

David Newbern

Associate Justice

Donald Corbin

Associate Justice

Tom Glaze

Associate Justice

Ray Thornton



OFFICE OF
THE DIRECTOR

State of Arkansas
DEPARTMENT OF FINANCE AND ADMINISTRATION
P.O. Box 3278
LITTLE ROCK • 72203-3278

PHONE (501) 682-2242
FAX (501) 682-1086

November 13, 1998

The Honorable Mike Huckabee, Governor
The Honorable Members of the Arkansas Legislature
The Citizens of Arkansas

It is my pleasure to transmit to you the Comprehensive Annual Financial Report of the State of Arkansas (the "State") for the fiscal year ended June 30, 1998. The report has been prepared by the Department of Finance and Administration. Responsibility for both the accuracy of data and the completeness and fairness of the presentation, including all disclosures, rests with the Department of Finance and Administration. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position of the various funds and account groups of the State. All disclosures necessary to enable the reader to gain an understanding of the State's financial activities have been included.

The report is presented in three sections. The introductory section includes this transmittal letter with narrative commentary on matters of interest to the reader and the State's organizational chart; the financial section includes the Independent Auditors' Report, general purpose financial statements, notes to the financial statements, required supplementary information, combining financial statements by fund type, schedules for account groups and other schedules; the statistical section includes selected financial, economic and demographic data for the State on a multi-year basis.

All agencies, accounts, departments, boards and commissions that represent the State's reporting entity are included in this report. The criteria used in determining the State's reporting entity are fully discussed in Note 1. The State provides a full range of services including: education, health and human resources, transportation, public safety, conservation of natural resources, economic development and regulation of businesses and professionals.

ECONOMIC CONDITION AND OUTLOOK

The longest and most prosperous economic expansion in Arkansas history since 1987 can be primarily attributed to low costs and labor efficiency which continue to attract manufacturers to the State. Average hourly wages earned in manufacturing in Arkansas are 81.9% of the national average. Wages are not the only determinant of the favorable rate of investment in the State; energy cost, infrastructure, location, other labor compensation costs, housing costs, educational investment, and state fiscal policy also contribute to the favorable investment climate of Arkansas.

In fiscal 1998, state personal income reached an estimated \$50.9 billion, an increase of \$2.2 billion or approximately 4.6% over fiscal 1997. Non-agricultural payroll employment expanded by 21 thousand jobs, an increase of 2.0% since 1996.

In the 10 years since 1988, total non-farm employment has grown by 236 thousand jobs, a 27% increase. In addition, real output has gone from \$39.5 billion to \$55.2 billion, an increase of 40% or an average annual growth of 4%. Most importantly, real disposable income has climbed from \$24.2 billion to \$40.2 billion, an increase of \$16 billion or 66.1%.

Contributing to this growth performance has been Arkansas' business investment financial incentive designed to provide companies with an opportunity to lessen the cost of doing business in our state. Whether a company is involved in manufacturing, biotechnology, office operations, distribution or headquarters expansion, Arkansas has incentive programs to facilitate a location or expansion.

In addition, the State has extensive services designed to increase productivity and the quality of life through the Total Quality Program (the "Program") sponsored by the Arkansas Economic Development Commission ("AEDC"). The Program provides financial assistance to Arkansas' manufacturing industries for upgrading the skills of the existing workforce.

MAJOR INITIATIVES

Welfare Reform

Measures were passed during the 81st General Assembly that will move residents off the welfare rolls and into the job market. The new Transitional Employment Assistance ("TEA") program will offer child care for welfare recipients moving into the workplace, transportation services and training that will help ease the transition into the workforce. The program will encourage savings by tripling the allowable limit, and it will permit the ownership of one vehicle without affecting eligibility.

Income Tax Relief

Governor Huckabee recognized that the \$90 million in tax relief passed in the last legislative session was only a beginning in providing meaningful tax reform for our citizens. Therefore, his balanced budget proposal includes \$78.5 million in additional tax relief over the biennium. The Governor's tax reform priorities include income tax and property tax cuts.

Health Care for Uninsured Children

The Governor initiated legislation during the 81st General Assembly to provide health insurance coverage for all uninsured children in Arkansas beginning July 1, 1997. The ARKids First program is one of the first of its kind in the nation and integrates uninsured children into the health care system. For less than 4% of the State's Medicaid budget, almost 27,000 uninsured children were covered at June 30, 1998.

The ARKids First Program will receive the funding necessary to continue serving the uninsured children of the State. The Executive Recommendation will provide additional social workers to address the needs of children and families and increase efforts in juvenile detention programs and aftercare programs in local communities. The Recommendation will significantly lower the number of developmentally disabled individuals who are waiting for daily living assistance, transportation, therapies and other services in settings other than institutions. This Recommendation will also allow the State to meet expected inflationary growth in medical services, nursing home care and prescription drugs.

Childhood Immunization

Funds have been provided for Arkansas to meet the National Year 2000 Childhood Immunization levels and to continue to fight teenage pregnancy. The recommendation for the Department of Health includes a commitment to a technology plan for greatly improving health information available to citizens.

Workforce Education

A new Board and Department for Workforce Education were established to encourage State government to address the issues of vocational education. The board will work to insure a solid system of adult education services, rehabilitation services and technical education services in the State. The new department replaces the existing Division of Vocational and Technical Education and will play an important role in the training aspects of the TEA program as well. A well-trained workforce is crucial if the State is to compete in the global marketplace.

The program provides \$50 million in fiscal year 2000 and \$111 million in fiscal year 2001 for equalization funding in the public schools. These increases will provide per student funding of \$110 in fiscal year 2000 and an additional \$117 in fiscal year 2001 and provide for anticipated increases in enrollment of 7,200 students. Funds will be included to implement Smart Start, a program to insure the best start possible for the youngest of our children as they begin their education, to enhance library holdings across the state, and to address technology and computer needs in our public schools.

The Vocational Institutes in the Department of Workforce Education will receive \$3.6 million each year to upgrade instructional programs and fund needed equipment and operational expenses to enhance vocational training for the State's work force.

Public Safety and Justice System

Measures were passed to provide operating funds to provide space for an additional 562 inmates in the correctional system, including 312 in maximum security. Additional funds will allow increased security staffing levels within the system. Increased staff and resources in the State Crime Laboratory will speed the processing of evidence used by prosecutors and law enforcement in the prosecution of criminals.

Also, this year, the operation of a new Crime Victim Notification Program was started, which allows the victims of crime to receive information on the custody and court status of the criminal offenders. The State will continue funding for the Family Protection Unit of the Arkansas State Police that operates a 24-hour hotline and investigates child abuse and domestic violence.

FINANCIAL MANAGEMENT

The financial statements of the State are prepared in accordance with generally accepted accounting principles ("GAAP") which requires that specific fund types be used on the combined balance sheet.

There are four categories of funds. The first category is the governmental fund. The general fund is used to account for all general government activities not accounted for in another fund and is the only governmental fund currently in use.

The proprietary fund is used to account for activities similar to the private sector, where the determination of net income is necessary or useful for sound financial administration. A component of the proprietary fund is the enterprise fund which provides goods and services to outside parties.

The fiduciary fund is used to account for assets held on behalf of outside parties or other funds within the government. When assets are held under the terms of a formal trust agreement, a pension trust fund or expendable trust fund is used. The term "expendable" refers to the ability of the governing agent to spend the trust principal. Agency funds generally are used to account for assets that the government holds on behalf of others as their agent.

The higher education fund presents the State supported colleges and universities in accordance with the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, and guidance as outlined by the National Association of College and University Business Officers and Governmental Accounting Standards Board.

Under GAAP, fund balance represents the excess of assets over liabilities. Therefore, it is possible for fund balance to remain unchanged while cash balances decrease or increase. In addition, certain amounts of fund balances may be reserved or "not spendable."

Internal Controls

The management of the State is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the State are protected from loss, theft or misuse and that adequate accounting data is compiled to allow the preparation of the financial statements in conformity with GAAP. The internal control structure has been designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or dispositions, the reliability of financial records for preparing financial statements, and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

Budgetary Control

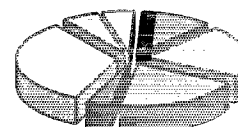
Budgetary control is maintained through legislative appropriation. Agencies submit budgetary requests to the Department of Finance and Administration. The Department of Finance and Administration compiles the executive budget on behalf of the Governor who submits it to the Legislature. The Department of Finance and Administration maintains control over the spending patterns of the State after the approval of the budget through control at the line item level. See Note 2 (Budgetary Basis Reporting) for further discussion of budgetary controls.

General Government Functions

Most State functions are financed through the general fund. The State's most significant sources of revenues in the general fund (GAAP basis) are taxes and intergovernmental. The State's most significant areas of expenditures from the general fund (GAAP basis) are the areas of public and higher education and health and human resources. The following charts present actual general fund (GAAP basis) revenues and expenditures for the fiscal year ended June 30, 1998 (expressed in thousands):

Revenues	1998	1997	Increase (Decrease) Percent
Personal income tax	\$ 1,553,778	\$ 1,378,162	12.74 %
Consumer sales tax	1,476,686	1,435,841	2.84 %
Corporate net income tax	268,605	236,538	13.56 %
Gas and motor carrier tax	368,050	355,586	3.51 %
Other taxes	361,071	312,704	15.47 %
Intergovernmental	2,387,385	2,335,367	2.23 %
Other revenues	746,333	836,738	(10.80)%
Total	<u>\$ 7,161,908</u>	<u>\$ 6,890,936</u>	<u>3.93 %</u>

REVENUE BY SOURCE FOR GENERAL FUND - 1998



- Personal income tax
- Consumer sales tax
- Corporate net income tax
- Intergovernmental
- Other taxes
- Gas and motor carrier tax
- Other revenues

Expenditures	1998	1997	Increase (Decrease) Percent
Education	\$ 1,883,809	\$ 1,812,291	3.95 %
Health and human resources	2,496,628	2,437,633	2.42 %
Transportation	635,188	677,638	(6.26)%
Law, justice and public safety	265,313	282,258	(6.00)%
Recreation and resource development	177,838	163,937	8.48 %
General government	724,127	751,164	(3.60)%
Regulation of businesses and professionals	121,450	147,064	(17.42)%
Debt service	54,876	77,360	(29.06)%
Capital outlay	110,988	184,003	(39.68)%
Total	<u>\$ 6,470,217</u>	<u>\$ 6,533,348</u>	<u>(0.97)%</u>

EXPENDITURES FROM GENERAL FUND - 1998



- Education
- Capital outlay
- Transportation
- Regulation of businesses and professionals
- Health and human resources
- Law, justice and public safety
- General government
- Recreation and resource development
- Debt service

Governmental revenues increased modestly by 3.93%, reflecting additional personal income tax revenue and consumer sales tax revenue of \$175.6 million and \$40.8 million, respectively. Intergovernmental revenues increased by \$52 million due to increased fundings from the federal government for the Medicaid program. Consumer sales tax increased due to the strong economic growth of the State including an increase in personal income of approximately 5% over the prior year.

Expenditures declined in fiscal year 1998 by .97% as the demand for governmental services remained relatively flat. The principal reasons for the modest decrease is due primarily to decreases in capital outlay, debt service, transportation and regulation of businesses and professionals.

Proprietary and Fiduciary Funds

The State's enterprise operations include the Workers' Compensation Commission and the Revolving Loan Fund Program. Since it is the intent of these programs to primarily recover operating costs (including depreciation) through user charges, they utilize an accrual basis of accounting with a measurement focus on the flow of economic resources.

Fiduciary funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations, other governmental units or other funds. These include the expendable trust, pension trust and agency funds. Trust funds are established through trust agreements specifying how the fund will operate. Agency funds are custodial in nature and do not report fund balances. The trust funds include the Employment Security Division, Arkansas Judicial Retirement Plan, Arkansas Teacher Retirement Plan, Arkansas State Police Retirement Plan, Arkansas Highway Retirement Plan and Arkansas State Employees Retirement Plan. Agency funds include the State Insurance Department and Other Agencies.

Component Units

The component units include the accounts of Arkansas Student Loan Authority and Arkansas Development Finance Authority. These authorities are legally separate entities that are not operating departments of the State and are managed independently with their powers generally vested in a governing board. Each authority is established for a specific purpose, such as education and economic development.

Combined operating revenues and expenses for the State's authorities amounted to approximately \$144 million and \$126 million, respectively, for fiscal year 1998. The total combined amount of retained earnings at fiscal year end was \$152 million.

Debt Administration

The Constitution of the State of Arkansas does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or special election held for that purpose. The total outstanding general obligation bonded indebtedness, including special obligation and other debt instruments, of the governmental fund types of the State as of June 30, 1998, was approximately \$414 million. Arkansas currently has a rating of Aa3 from Moody's Investors Service and a rating of AA from Standard and Poors.

Cash Management

State funds are invested by the Treasurer and also by various state agencies, including the retirement systems and institutions of higher education. Permissible investments include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government Obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Risk Management

The State manages risk with a combination of self-insurance and commercial policies. The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies.

The State also established the State Employees Insurance Advisory Committee (the "Committee") by Act 48 of 1972 and allowed the Committee to pursue self-funding activities by Act 576 of 1975. The Committee provides comprehensive major medical care, prescription drug and life insurance for employees of the State and its participating component units, as well as their dependents, through the establishment of a variety of self-insured plans. The Committee also makes medical coverage available to retirees should they elect to continue such coverage at their own expense.

Year 2000

The State has adopted the provisions of Governmental Accounting Standards Board Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, which mandate certain Year 2000 disclosures in the notes to the financial statements. The State has included such disclosures in Note 18 to the general purpose financial statements. The State also established a website (<http://www.dis.state.ar.us/y2k/y2kintro.htm>) that discusses progress to date on the State of Arkansas Year 2000 Project.

Audit

The firm of Deloitte & Touche LLP performed the audit for the fiscal year ended June 30, 1998. Generally accepted auditing standards were used by the auditors in conducting the engagement. The auditors' report on the general purpose financial statements is included in the financial section of this report.

Awards

The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to the State of Arkansas for its Comprehensive Annual Financial Reports for the fiscal years ended June 30, 1997 and 1996. The Certificate of Achievement is a prestigious national award recognizing conformance with the highest standards for preparation of State and Local Government Financial Reports. In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report, whose contents conform to program standards. Such Comprehensive Annual Financial Reports must satisfy both generally accepted accounting principles and applicable legal requirements.

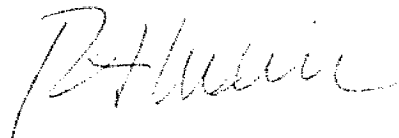
A Certificate of Achievement is valid for a period of one year only. We believe that our current report continues to conform to the Certificate of Achievement program requirements, and are submitting it to the GFOA.

Acknowledgments

Recognition for the leadership of accurate and timely financial reporting lies with Governor Mike Huckabee. He has made fiscal responsibility a high priority in his administration and his leadership has been crucial to the project's success. Governor Huckabee believes that this project will provide overall improvements in government accountability. It will save the State interest expense by providing market analysts, potential investors and others with complete, comparable financial information. It will provide the Legislature and others in key positions that require them to make financial decisions with clear, concise and complete financial data that is free of ambiguities or any misleading facts. The Governor's commitment to this project, especially his support of continued funding, demonstrates his firm belief in our continuing progress.

This report also would not be possible without the support of all state agencies that provided GAAP closing data on a timely basis. The future success of this project directly depends upon their continued cooperation and support as well.

Sincerely,

A handwritten signature in dark ink, appearing to read "R. Weiss", written in a cursive style.

Richard Weiss
Director
Department of Finance and Administration

Certificate of Achievement for Excellence in Financial Reporting

Presented to

State of
Arkansas

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 1997

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



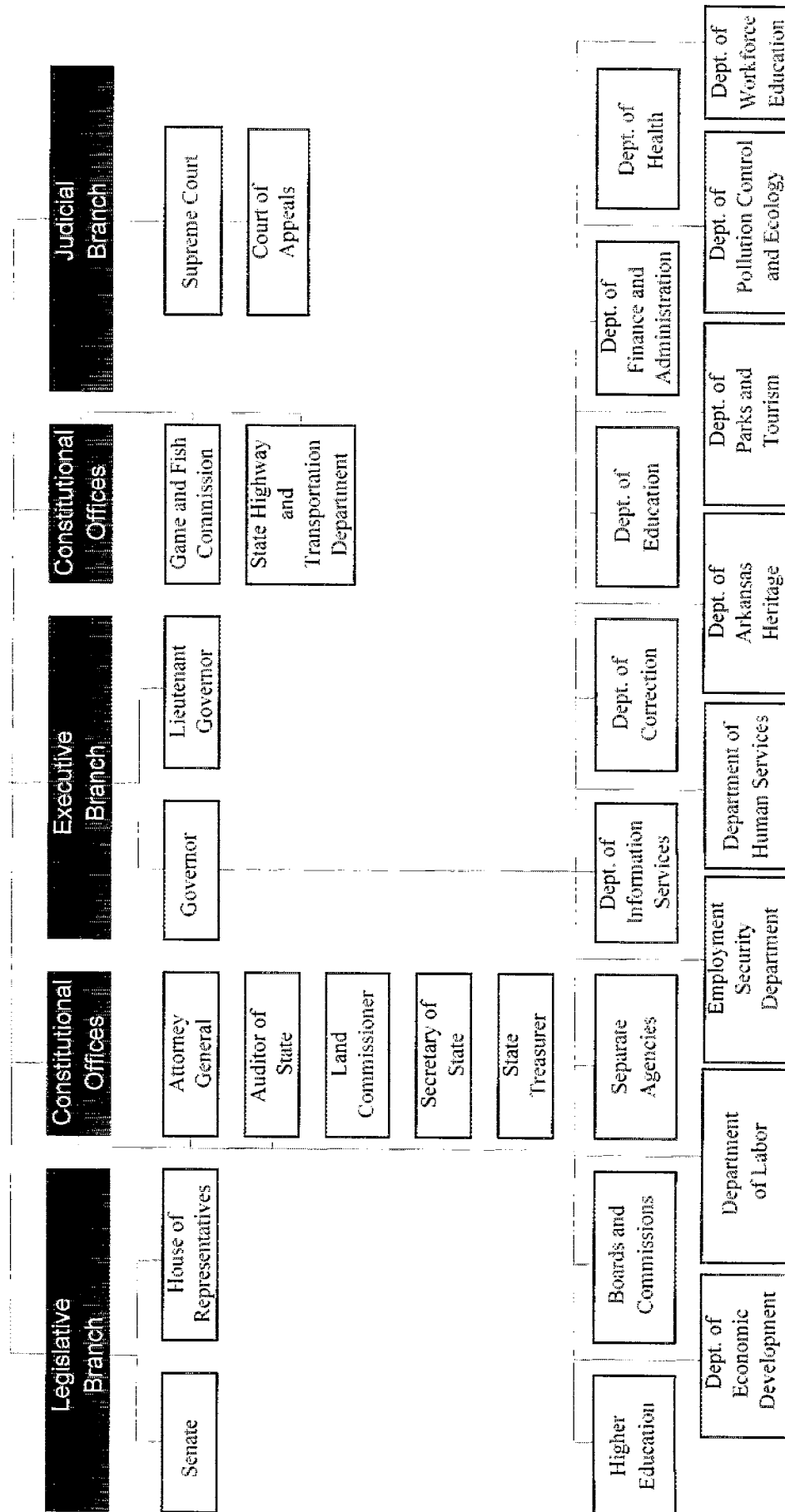
Douglas R. Ellsworth
President

Jeffrey L. Esser
Executive Director

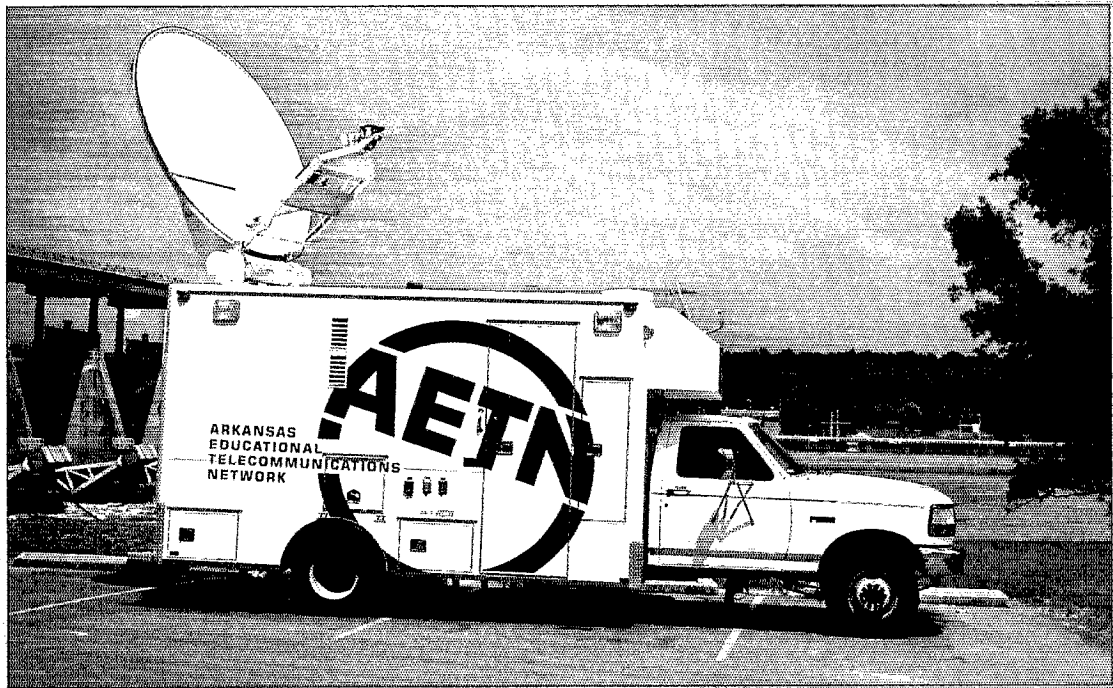
State of Arkansas

Organizational Chart

VOTERS

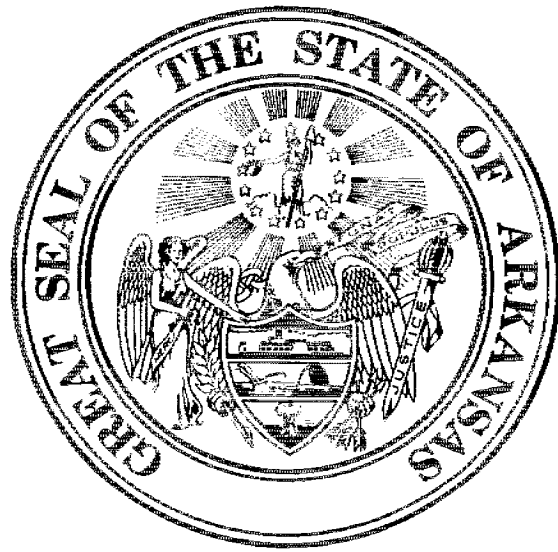


Financial Section



AETN is Arkansas' only statewide television network, with five transmitters and four microwave sites. AETN's satellite uplink services help produce and transmit teleconferences, training and electronic news meetings in a cost-effective manner. Partners in these efforts have included the Arkansas Department of Human Services, the Arkansas Office of Emergency Services, the Arkansas Department of Education, the Federal Emergency Management Agency and many others.





**INDEPENDENT AUDITORS' REPORT**

The Honorable Mike Huckabee, Governor
of the State of Arkansas

We have audited the accompanying general purpose financial statements of the State of Arkansas (the "State"), as of June 30, 1998, and for the year then ended, listed in the foregoing table of contents. These general purpose financial statements are the responsibility of the management of the State. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the Arkansas Student Loan Authority, which represents approximately 13% of total assets and 12% of total operating revenues of the discretely presented component units. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for those activities, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinion.

Governmental Accounting Standards Board ("GASB") Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, requires disclosure of certain matters regarding the year 2000 issue. The State has included such disclosures in Note 18. Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Accordingly, insufficient audit evidence exists to support the State's disclosures with respect to the year 2000 issue made in Note 18. Further, we do not provide assurance that the State is or will be year 2000 ready, that the State's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the State does business will be year 2000 ready.

In our opinion, based upon our audit and the report of other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding year 2000 disclosures, such general purpose financial statements present fairly, in all material respects, the financial position of the State as of June 30, 1998, and the results of its operations and the cash flows of its proprietary fund type and discretely presented component units for the year then ended in conformity with generally accepted accounting principles.

As discussed more fully in Note 6, the State adopted Statements of the Governmental Accounting Standards Board No. 31, *Accounting and Reporting for Certain Investments and for External Investment Pools* and No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans* during the year ended June 30, 1998.

Also, as more fully discussed in Note 6, management of the State has restated certain June 30, 1997, fund equity balances for a correction of prior year amounts related to fixed assets excluded from the general fixed asset account group and the reporting of a Revolving Loan Fund Program.

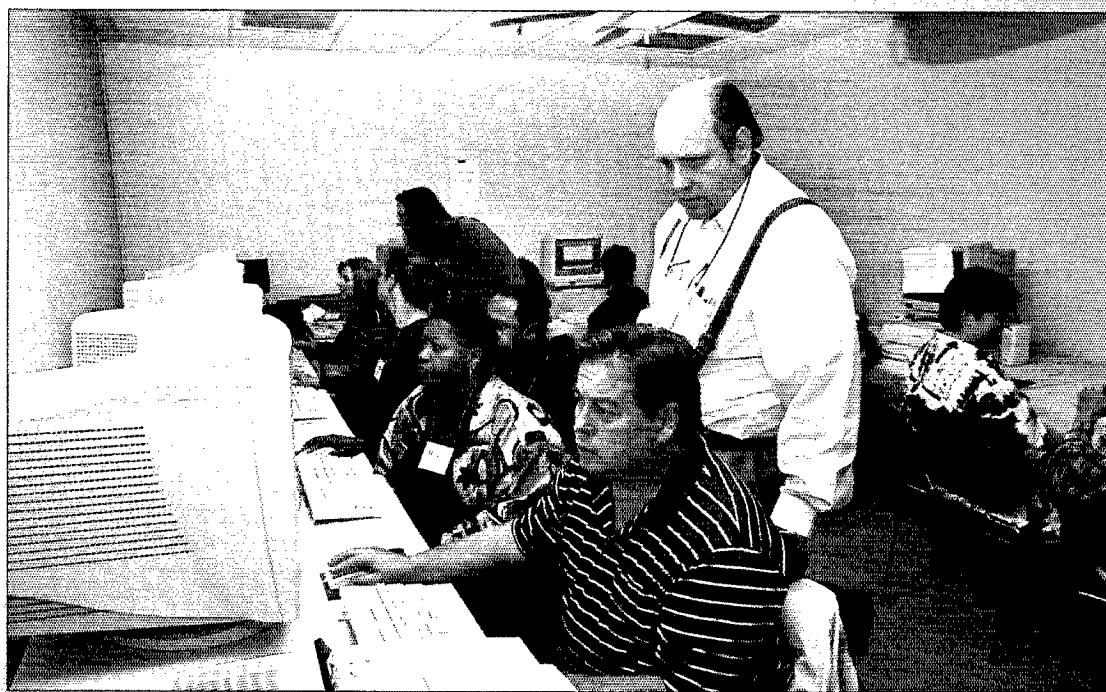
Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The combining and individual fund and account group financial statements, schedules and required supplementary information, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the State. These financial statements, schedules and supplementary information are the responsibility of the management of the State. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

The introductory and statistical data listed in the foregoing table of contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the State. Such additional information has not been subjected to the auditing procedures applied in our audit of the general purpose financial statements and, accordingly, we express no opinion on it.

Deloitte & Touche LLP

November 13, 1998

General Purpose Financial Statements



Intellinet Interactive Waves will help Arkansas teachers educate students in today's technology-rich learning environment. AETN is a partner with the Arkansas Leadership Academy in providing the Electronic Learning Environment for specialized training. This partnership is just one example of Arkansas' efforts toward continuous use of technology to better serve all citizens.



Combined Balance Sheet **All Fund Types, Account Groups and Component Units**

June 30, 1998

(Expressed in Thousands)

	Governmental Fund Type	Proprietary Fund Type	Fiduciary Fund Type
	General	Enterprise	Trust and Agency
ASSETS AND OTHER DEBITS:			
Cash and cash equivalents	\$1,017,456	\$168,068	\$ 1,386,513
Investments	360,681	14,840	12,345,622
Receivables, net:			
Accounts	61,625	10,705	48,127
Taxes	253,160		
Employer			12,731
Employee			4,871
Notes and deposits	41,855		
Medicaid	120,466		
Loans	117,676	168,709	
Investment related	14,719	2,414	137,676
Due from other governments	40,068	20,727	6,475
Due from other funds - primary government	569		
Due from other funds - higher education			
Due from component units	10,900		
Advances to other funds - primary government	17,082		23,911
Advances to component units			239
Inventories	25,514		
Fixed assets, net		2,715	784
Other assets		15,426	5
Amount available for debt service			
Amount to be provided for debt retirement			
TOTAL ASSETS AND OTHER DEBITS	\$2,081,771	\$403,604	\$13,966,954
LIABILITIES, FUND EQUITY AND OTHER CREDITS:			
Liabilities:			
Accounts payable	\$ 45,402	\$ 851	\$ 253
Accrued and other liabilities	68,509	14,975	1,917,602
Deferred revenues		20,727	
Due to other governments	76,498		59
Due to other funds - primary government	5,213		
Due to other funds - higher education			
Due to primary government			
Advances from other funds - primary government	23,911		
Workers' compensation benefits payable		159,735	
Medicaid claims payable	165,384		
Tax refunds and abatements payable	51,754		
Agency liabilities			488,006
Capital leases		2,141	
Notes payable			
Revenue bonds payable			
Special obligation bonds payable		102,685	
General long-term debt payable			
Total Liabilities	436,671	301,114	2,405,920
Fund equity (deficit) and other credits:			
Investment in fixed assets			
Retained earnings (deficit) - unreserved		(12,014)	
Retained earnings - reserved for bond programs			
Contributed capital		114,504	
Fund balances:			
Reserved:			
Loans	117,676		
Advances to other funds	17,082		
Inventory	25,514		
Capital projects	100,420		
Higher education			
Unemployment compensation			235,494
Net assets held in trust for pension benefits			11,325,540
Unreserved:			
Designated	1,384,408		
Undesignated			
Total Fund Equity and Other Credits	1,645,100	102,490	11,561,034
TOTAL LIABILITIES, FUND EQUITY AND OTHER CREDITS	\$2,081,771	\$403,604	\$13,966,954

The accompanying notes are an integral part of the financial statements.

Higher Education Fund Type	Account Groups		Total Primary Government (Memorandum Only)	Component Units
	Fixed Assets	Long-Term Debt		
Colleges and Universities				
\$ 331,575			\$ 2,903,612	\$ 217,700
479,571			13,200,714	866,295
130,154			250,611	20,992
			253,160	
			12,731	
			4,871	
40,184			82,039	
			120,466	
			286,385	678,629
899			155,708	9,074
			67,270	
5,213			5,782	
11,310			11,310	
			10,900	
			40,993	
			239	
14,326			39,840	
1,898,729	\$1,027,901		2,930,129	577
17,406			32,837	106,554
		\$ 22,785	22,785	
		761,181	761,181	
<u>\$2,929,367</u>	<u>\$1,027,901</u>	<u>\$783,966</u>	<u>\$21,193,563</u>	<u>\$1,899,821</u>
\$ 60,742			\$ 107,248	\$ 63,801
258,862			2,259,948	56,193
10,316			31,043	
			76,557	
569			5,782	
11,310			11,310	
				10,900
17,082			40,993	239
			159,735	
			165,384	
			51,754	
			488,006	
5,475			7,616	
14,152			14,152	
346,573			346,573	230,925
			102,685	1,385,691
		\$783,966	783,966	
<u>725,081</u>	<u></u>	<u>783,966</u>	<u>4,652,752</u>	<u>1,747,749</u>
1,562,827	\$1,027,901		2,590,728	
			(12,014)	42,773
			114,504	109,299
			117,676	
			17,082	
			25,514	
			100,420	
387,959			387,959	
			235,494	
			11,325,540	
			1,384,408	
253,500			253,500	
<u>2,204,286</u>	<u>1,027,901</u>	<u></u>	<u>16,540,811</u>	<u>152,072</u>
<u>\$2,929,367</u>	<u>\$1,027,901</u>	<u>\$783,966</u>	<u>\$21,193,563</u>	<u>\$1,899,821</u>

Combined Statement of Revenues, Expenditures and Changes in Fund Balances **All Governmental Fund Types and Expendable Trust Fund**

For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Governmental Fund Type	Fiduciary Fund Type
	General	Expendable Trust
REVENUES:		
Taxes:		
Personal income	\$1,553,778	
Consumer sales	1,476,686	
Corporate net income	268,605	
Gas and motor carrier	368,050	
Unemployment		\$194,783
Other	361,071	
Intergovernmental	2,387,385	
Licenses, permits and fees	414,338	
Investment earnings	90,169	14,194
Other	241,826	
Total Revenues	<u>7,161,908</u>	<u>208,977</u>
EXPENDITURES:		
Current:		
Education	1,883,809	
Health and human resources	2,496,628	
Transportation	635,188	
Law, justice and public safety	265,313	
Recreation and resource development	177,838	
General government	724,127	
Regulation of businesses and professionals	121,450	192,731
Debt service	54,876	
Capital outlay	110,988	
Total Expenditures	<u>6,470,217</u>	<u>192,731</u>
Excess of revenues over expenditures	691,691	16,246
OTHER FINANCING SOURCES (USES):		
Proceeds from long-term obligations	163,156	
Proceeds from capital leases	73	
Operating transfers in	115	
Operating transfers out	(565,952)	
Total Other Financing Uses	<u>(402,608)</u>	
REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES	<u>289,083</u>	<u>16,246</u>
FUND BALANCE AT BEGINNING OF YEAR, AS ADJUSTED (Note 6)	<u>1,396,338</u>	<u>219,248</u>
Decrease in reserve for inventory	(40,321)	
FUND BALANCE AT END OF YEAR	<u>\$1,645,100</u>	<u>\$235,494</u>

The accompanying notes are an integral part of the financial statements.

Statement of Revenues, Expenditures and Changes in Fund Balance Budget and Actual-Variance (Budgetary Basis) General Fund

For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Taxes:			
Personal income	\$ 1,570,009	\$1,570,009	
Consumer sales	1,482,426	1,482,426	
Corporate net income	289,111	289,111	
Gas and motor carrier	364,673	364,673	
Use	482,622	482,622	
Other	800,995	800,995	
Intergovernmental	2,122,085	2,122,085	
Licenses, permits and fees	414,208	414,208	
Investment earnings	72,262	72,262	
Other	383,770	383,770	
Total Revenues	7,982,161	7,982,161	
EXPENDITURES:			
Current:			
Education	1,960,628	1,900,786	\$ 59,842
Health and human resources	2,388,281	2,285,777	102,504
Transportation	722,830	637,185	85,645
Law, justice and public safety	356,010	303,840	52,170
Recreation and resource development	324,301	188,515	135,786
General government	3,937,230	1,680,579	2,256,651
Regulation of businesses and professionals	166,283	104,735	61,548
Debt service	242,427	106,332	136,095
Capital outlay	42,155	31,702	10,453
Total Expenditures	10,140,145	7,239,451	2,900,694
Excess of revenues over (under) expenditures	(2,157,984)	742,710	2,900,694
OTHER FINANCING SOURCES (USES):			
Operating transfers in	7,706,013	7,706,013	
Operating transfers out	(8,262,183)	(8,262,183)	
Total Other Financing Uses	(556,170)	(556,170)	
REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES AND OTHER USES	(2,714,154)	186,540	2,900,694
FUND BALANCE AT BEGINNING OF YEAR, AS ADJUSTED (Note 6)	1,396,338	1,396,338	
FUND BALANCE (DEFICIT) AT END OF YEAR	<u><u>\$(1,317,816)</u></u>	<u><u>\$1,582,878</u></u>	<u><u>\$2,900,694</u></u>

The accompanying notes are an integral part of the financial statements.

Combined Statement of Revenues, Expenses and Changes in Retained Earnings Proprietary Fund Type and Discretely Presented Component Units

For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Proprietary Fund Type	Component Units
	Enterprise	Proprietary Fund
OPERATING REVENUES:		
Licenses, permits and fees	\$ 8,547	
Investment earnings	7,876	\$142,615
Insurance tax	14,057	
Other	525	1,866
Total Operating Revenues	31,005	144,481
OPERATING EXPENSES:		
General and administrative	27,600	18,347
Interest	5,427	106,711
Depreciation	517	
Amortization	292	
Other		1,053
Total Operating Expenses	33,836	126,111
Operating Income (Loss)	(2,831)	18,370
NON-OPERATING REVENUES (EXPENSES):		
Grants, entitlements and shared revenues		15,402
Investment earnings	6,557	
Interest	(139)	
Total Non-Operating Revenue	6,418	15,402
Income Before Operating Transfers	3,587	33,772
OPERATING TRANSFERS -		
Operating transfers out - primary government	(115)	
NET INCOME	3,472	33,772
RETAINED EARNINGS (DEFICIT) AT BEGINNING OF YEAR, AS ADJUSTED (Note 6)	(15,486)	118,300
RETAINED EARNINGS (DEFICIT) AT END OF YEAR	\$(12,014)	\$152,072

The accompanying notes are an integral part of the financial statements.

Combined Statement of Cash Flows
Proprietary Fund Type and Discretely Presented Component Units
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Proprietary Fund Type	Component Units
	Enterprise	Proprietary Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Operating income (loss)	\$ (2,831)	\$ 18,370
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:		
Depreciation, accretion and amortization, net	809	(3,801)
Provision for arbitrage rebate		982
Net appreciation on investments		(14,632)
Provision for loan loss		(108)
Changes in operating assets and liabilities:		
Accounts receivable	(1,197)	(1,272)
Loans receivable		(19,311)
Investment related receivable	(57)	3,578
Other assets	1	(823)
Accounts payable and accrued expenses	(525)	16,723
Workers' compensation benefits payable	7,557	
Other liabilities	1,660	4,597
Net Cash Provided by Operating Activities	5,417	4,303
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Operating transfers out to other funds	(115)	
Proceeds from issuance of bonds		396,681
Repayment of bonds	(2,495)	(236,042)
Payment of notes payable		(8,550)
Payment of debt issuance costs		(6,141)
Collection of financing fees		4,572
Interest expense	(139)	
Proceeds from grants, entitlements and shared revenues	8,472	15,402
Net Cash Provided by Non-capital Financing Activities	5,723	165,922
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital lease obligation	(349)	
Capital expenditures		(21)
Acquisition of capital assets	(100)	
Net Cash Used for Capital and Related Financing Activities	(449)	(21)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments		(737,399)
Investment earnings	6,558	
Proceeds from sales and maturities of investments	5,848	623,861
Loan disbursements	(15,059)	73,983
Principal collected on loans	5,998	3,355
Net Cash Provided (Used) by Investing Activities	3,345	(36,200)
NET INCREASE IN CASH AND CASH EQUIVALENTS	14,036	134,004
CASH AND CASH EQUIVALENTS:		
Beginning of year	154,032	83,696
End of year	<u>\$168,068</u>	<u>\$ 217,700</u>
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 139	\$ 84,899
Federal capitalization grants approved	4,076	
Underwriters' discounts on bonds	99	
Sales discount on bonds	127	
Other cost of issuance of bonds	26	

The accompanying notes are an integral part of the financial statements.

Combined Statement of Changes in Plan Net Assets Held in Trust for Pension Benefits Pension Trust Funds

**For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)**

	Fiduciary Fund Type
	Pension Trust
ADDITIONS:	
Contributions:	
Employer	\$ 272,245
Employee	56,097
Total Contributions	328,342
Investment income:	
Net appreciation in fair value of investments	1,244,630
Interest	278,872
Dividends	82,039
Real estate operating income	1,600
Other	109,776
Less investment expense	(134,030)
Net Investment Income	1,582,887
Other additions -	
Miscellaneous revenues	7,451
TOTAL ADDITIONS	1,918,680
DELETIONS:	
Annuity benefits	343,599
Refunds of employee contributions	4,815
Administrative expenses	7,675
Other deletions	3,022
TOTAL DELETIONS	359,111
NET INCREASE	1,559,569
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT BEGINNING OF YEAR	9,765,971
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT END OF YEAR	\$11,325,540

The accompanying notes are an integral part of the financial statements.



Combined Statement of Changes in Fund Balances Higher Education Fund Type

For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Current Funds			Endowment and Similar
	Unrestricted	Restricted	Loan	
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	\$ 324.866			
Auxiliary enterprises, hospitals and clinics	504.501			
Endowment income				\$ 62
Gifts and grants		\$233,541	\$ 463	282
Investment earnings		1,005	1,844	18,419
Additions to plant facilities				
Retirement of indebtedness				
Bond proceeds				
Other additions		5,805	1,140	359
Total Revenues and Other Additions	829.367	240.351	3.447	19.122
EXPENDITURES AND OTHER DEDUCTIONS:				
Education and general	800.687	240.959		
Auxiliary enterprises, hospitals and clinics	458.237	492		
Loan cancellations and write-offs			1,517	
Indirect cost recoveries		3,802		
Administration expenses			275	113
Refunded to grantors		43	64	
Retirement of indebtedness				
Expended for plant facilities				
Interest expense				
Issuance of bonds				
Disposal of plant facilities				
Other			448	2,944
Total Expenditures and Other Deductions	1,258,924	245.296	2,304	3,057
TRANSFERS AND OTHER ADDITIONS/(DEDUCTIONS):				
Mandatory:				
Principal and interest	(26,038)	(699)		
Matching contribution	(493)	191	302	
Renewals and replacements	(1,393)			
Other mandatory transfers	(137)	201	82	(159)
Non-Mandatory:				
Unexpended plant funds	(12,830)			
Renewals and replacements	(2,768)	57	(3)	
Retirement of indebtedness	917			
Other	(6,715)	(2,342)	12	(31)
Operating transfers in - primary government	498.704	5,740	725	
Total Transfers and Other Additions/(Deductions)	449.247	3,148	1,118	(190)
NET INCREASE (DECREASE) FOR THE YEAR	19,690	(1,797)	2,261	15,875
FUND BALANCE AT BEGINNING OF THE YEAR, AS ADJUSTED (Note 6)	175,399	37,911	46,196	94,960
FUND BALANCE AT END OF THE YEAR	\$ 195,089	\$ 36,114	\$48,457	\$110,835

The accompanying notes are an integral part of the financial statements.

Plant Funds	Total
	\$ 324,866
	504,501
	62
\$ 28,948	263,234
5,573	26,841
143,211	143,211
23,922	23,922
24,298	24,298
19,399	26,703
<u>245,351</u>	<u>1,337,638</u>
	1,041,646
	458,729
	1,517
	3,802
104	492
	107
30,925	30,925
121,820	121,820
14,435	14,435
20,468	20,468
17,703	17,703
13,586	16,978
<u>219,041</u>	<u>1,728,622</u>
26,737	
1,393	
13	
12,830	
2,714	
(917)	
9,076	
<u>60,783</u>	<u>565,952</u>
<u>112,629</u>	<u>565,952</u>
138,939	174,968
<u>1,674,852</u>	<u>2,029,318</u>
<u>\$1,813,791</u>	<u>\$2,204,286</u>

Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances Higher Education Fund Type

**For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)**

	Current Funds		Total
	Unrestricted	Restricted	
REVENUES:			
Tuition and fees	\$188,619		\$ 188,619
Federal appropriations	70	\$ 32,975	33,045
Endowment income	559	1,393	1,952
Federal grants and contracts	2,429	113,769	116,198
State and local grants and contracts	3,485	44,449	47,934
Private gifts, grants and contracts	7,704	40,278	47,982
Investment earnings	3,099	164	3,263
Sales and services of educational facilities	44,042	1,872	45,914
Sales and services of auxiliary enterprises and hospitals	504,501	405	504,906
Insurance	46,451		46,451
Other sources	28,408	523	28,931
Total Current Revenues	829,367	235,828	1,065,195
EXPENDITURES AND MANDATORY TRANSFERS:			
Educational and General:			
Instruction	339,833	35,739	375,572
Research	59,013	58,476	117,489
Public service	35,873	30,362	66,235
Academic support	63,604	11,077	74,681
Student services	36,628	7,051	43,679
Institutional support	107,908	1,448	109,356
Operation and maintenance of plant	69,204	1,410	70,614
Scholarships and awards	34,897	95,396	130,293
Other expenditures	53,727		53,727
Educational and General Expenditures	800,687	240,959	1,041,646
Mandatory Transfers for:			
Principal and interest	18,035	587	18,622
Matching requirements	493	(191)	302
Renewals and replacements	1,275		1,275
Other mandatory transfers	137	(201)	(64)
Total Educational	820,627	241,154	1,061,781
Auxiliary Enterprises and Hospitals:			
Expenditures	458,237	492	458,729
Mandatory transfers for:			
Principal and interest	8,003	112	8,115
Renewals and replacements	118		118
Total Auxiliary Enterprises and Hospitals	466,358	604	466,962
Operating Transfers In - Primary Government	498,704	5,740	504,444
Total Expenditures and Mandatory Transfers	788,281	236,018	1,024,299
OTHER TRANSFERS AND ADDITIONS (DEDUCTIONS):			
Educational and General Non-Mandatory Transfers for:			
Unexpended plant	(12,095)		(12,095)
Renewals and replacements	(2,768)	57	(2,711)
Retirement of indebtedness	917		917
Other non-mandatory transfers	(6,715)	(2,342)	(9,057)
Auxiliary Non-Mandatory Transfers for -			
Unexpended plant	(735)		(735)
Excess of Restricted Receipts Over Transfers to Revenues		678	678
NET INCREASE (DECREASE) IN FUND BALANCES	\$ 19,690	\$ (1,797)	\$ 17,893

The accompanying notes are an integral part of the financial statements.

Notes to the General Purpose Financial Statements

For the Fiscal Year Ended June 30, 1998

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying general purpose financial statements of the State of Arkansas (the "State") conform with generally accepted accounting principles ("GAAP") for governments. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for governmental accounting and financial reporting. In addition, GAAP requires that the State's proprietary activities apply GAAP as it is applied by similar business activities in the private sector. The financial statements of the State's colleges and universities have been prepared in accordance with the accounting guidance as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the National Association of College and University Business Officers ("NACUBO"), and pronouncements issued by the GASB.

The general purpose financial statements have been prepared primarily from accounts maintained by the Department of Finance and Administration and the State Treasurer. Additional data has been derived from the audited financial statements of certain entities and from reports and data prescribed by the Department of Finance and Administration, Office of Accounting. These prescribed reports and data were prepared by various State agencies and departments based on independent or subsidiary accounting records maintained by them.

The Reporting Entity - For financial reporting purposes, the State of Arkansas' primary government includes all funds, account groups, departments and agencies, boards, commissions, and authorities that make up the State's legal entity. The State's reporting entity also is comprised of its component units; legally separate organizations for which the State's elected officials are financially accountable.

Individual Component Unit Disclosures - GAAP defines component units as those entities which are legally separate organizations for which the State's elected officials are financially accountable or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading and incomplete. GAAP details two methods of presentation: blending the financial data of the component units' balances and transactions in a manner similar to the presentation of the State's balances and transactions; or discrete presentation of the component units' financial data columns separate from the State's balances and transactions.

Blended Component Units - The State has no blended component units.

Discretely Presented Component Units - Discrete component units are entities which are legally separate from the State, but are financially accountable to the State, or whose relationships with the State are such that exclusion would cause the State's financial statements to be misleading or incomplete. The Component Units column of the combined financial statements include the financial data of the following entities:

Arkansas Student Loan Authority - Arkansas Student Loan Authority ("ASLA") was established pursuant to Act 873 of 1977, as amended. The purpose of ASLA is to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. The students attend qualified Arkansas educational institutions or are Arkansas residents who attend qualified institutions located outside the State of Arkansas.

Arkansas Development Finance Authority - Arkansas Development Finance Authority ("ADFA") provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprises, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

Component Unit Financial Statements - Complete financial statements of each of the discretely presented component units can be obtained by contacting their respective administrative office.

Arkansas Student Loan Authority
101 East Capitol, Suite 401
Little Rock, AR 72201

Arkansas Development Finance Authority
100 Main Street, Suite 200; P.O. Box 8023
Little Rock, AR 72203

Fund Structure - The financial activities of the State are accounted for in individual funds and account groups. A fund is a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein. These are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. Individual funds of the primary government are classified in four fund categories: governmental, proprietary, fiduciary and higher education.

Account groups are accounting entities used to account for the State's general fixed assets and long-term debt. These account groups are not funds because they do not reflect available financial resources and related liabilities.

The following describes the fund categories and account groups used in the accompanying general purpose financial statements:

Governmental Funds

General Fund - The general fund is the general operating fund of the State. It is used to account for all financial resources obtained and spent for those services normally provided by the State which are not accounted for in other funds.

Proprietary Fund

Enterprise Fund - This fund is used to account for operations of those state agencies providing goods or services to the general public on a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the Workers' Compensation Commission ("WCC") which is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment, and the Revolving Loan Fund Program, which is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities.

Fiduciary Funds

Trust and Agency Funds - These funds are used to account for assets held by the State in a trustee capacity or as an agent for individuals, private organizations or other funds. These funds include expendable trust, pension trust and agency funds. Pension trust funds are accounted for on the accrual basis. Expendable trust funds are accounted for in the same manner as governmental funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Higher Education Fund

The financial statements of Higher Education have been prepared with the accounting guidance and reporting practices applicable to colleges and universities, as outlined in the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities*, the *College and University Business Administration*, published by the NACUBO and pronouncements issued by the GASB.

Current Funds - These funds are used to account for resources that will be expended in the near term for operating purposes of the institutions. These include (1) unrestricted funds over which the governing boards retain full control in achieving the institutions' purposes, and (2) restricted funds which may be utilized only in accordance with externally restricted purposes.

Fiduciary Funds - These funds are used to account for assets held by loan, endowment, life income and agency funds in which the universities act in a fiduciary capacity.

Plant Funds - These funds are used to account for institutional property acquisition, renewal, replacement, debt service and investment.

Agency Funds - These funds are used to account for amounts held in custody for students, university-related organizations and others.

The Combined Statement of Current Funds Revenues, Expenditures, Transfers and Other Changes in Fund Balances is a statement of financial activities related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

Account Groups

General Fixed Assets - This account group is used to account for all fixed assets (excluding infrastructure) that are not accounted for in the proprietary fund, pension trust funds, higher education fund or component units.

General Long-Term Debt - This account group includes the unmatured portion of the long-term general obligation debt which is to be financed from governmental funds. Also included in this group are long-term liabilities resulting from capital lease obligations, notes payable, claims and judgments, compensated absences and unfunded pension costs.

Discretely Presented Component Units

The State's discretely presented component units conduct business-like activities that provide goods/services to the public, other governmental units and the State, and are financed primarily through user charges. The measurement focus of these entities is upon determination of net income, financial position and cash flows.

Basis of Accounting - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus as described below. The revenue, expenditure and expense recognition policies have been applied in the determination of the related assets and liabilities at June 30, 1998.

Governmental and expendable trust funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. The State's revenue recognition policies conform to the provisions of GASB Statement No. 22, *Accounting for Tax-Payer Assessed Tax Revenues in Governmental Funds*. Significant revenues susceptible to accrual include income, sales, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from federal grants are recognized when the related expenditures have been incurred. Revenues from other sources are recognized when received. Expenditures are recorded at the time fund liabilities are incurred except (1) inventories generally are recorded as expenditures when purchased, and (2) principal and interest on long-term debt are recorded when paid.

The accrual basis of accounting with a flow of economic resources measurement focus is utilized in the proprietary fund, pension trust funds, higher education fund and discretely presented component units. Under this accounting basis, revenues are recognized when earned and expenses are recognized when incurred. For the pension trust funds, employee contributions are recognized in the period in which contributions are due. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Contributions from employees and employers for service through June 30 are accrued. These contributions are considered to be fully collectible, and accordingly, no allowance for uncollectible receivables is reflected in the financial statements. Benefits and refunds are recognized when due and payable in accordance with provisions set forth in the Arkansas Code.

The State and the discretely presented component units have adopted the provisions of GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that Use Proprietary Fund Accounting*. As permitted by the statement, the State has elected not to adopt Financial Accounting Standards Board ("FASB") Statements issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations.

Consistent with current GAAP for public colleges and universities, depreciation on higher education physical or plant assets is not recorded, and revenue and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted.

Agency funds are custodial in nature (assets equal liabilities) and are accounted for on a modified accrual basis of accounting.

Budgetary Basis of Accounting - The State's budget is adopted in accordance with a statutory cash basis of accounting which is not in accordance with GAAP. Revenues are recognized when cash is received and deposited in the State Treasury or reported to the Department of Finance and Administration. Expenditures are recorded when cash is disbursed. If goods or services are not received before year end, all encumbrances lapse, except those appropriations for multi-year projects.

Cash and Cash Equivalents - Cash and cash equivalents include demand accounts, imprest accounts, cash on hand, all certificates of deposit and all short-term instruments with maturities at purchase of ninety days or less. Short-term investments are stated at fair value, except for agency funds not held for investment purposes which are reported at amortized cost.

Investments - Investments include U.S. Government and government agency obligations, repurchase agreements, state and local government obligations and corporate debt and equity obligations. Investments are reported at fair value, except for agency fund investments not held for investment purposes, which are reported at amortized cost. The General and Higher Education Fund Investments are stated at fair value as determined by independent quoted market sources.

Investments in the pension trust funds are reported at fair values as determined by the custodial agents. The agents determination of fair value includes, among other things, using pricing services or prices quoted by independent brokers at current exchange rates.

Realized and unrealized gains and losses on investments are included in investment earnings on the respective operating statement.

The University of Arkansas System (the "System") has established an investment pool (the "Pool"). The investments in the Pool are governed by the University of Arkansas System Investment Policy, which was established by the University of Arkansas Board of Trustees. The Pool is not SEC-registered. Participation in the Pool is voluntary. At June 30, 1998, four universities participated in the Pool. Also participating in the Pool are two foundations related to the System. These foundations hold 49% or \$180 million of the investments in the Pool, which are reported separately along with the related liability in an agency fund. Participation in or withdrawal from the Pool is based on the daily market value of the units within the Pool. Income from the Pool is allocated to the participants in the Pool based on the market value per unit from the previous day.

Receivables - Receivables in the State's governmental fund consist primarily of taxes, loans, interest and federal grants. The remaining governmental fund revenues are not considered susceptible to accrual prior to receipt. Receivables in all other funds have arisen in the ordinary course of business.

Interfund Transactions - The State has three types of interfund transactions:

- Operating appropriations. These are accounted for as operating transfers in the funds involved.
- Residual equity transfers. These are nonroutine or nonrecurring transfers between funds and are reported as additions to or deductions from fund equity.
- Quasi-external transactions. Charges or collections for services rendered by one fund to another are recorded as revenues in the receiving fund and expenditures/expenses of the disbursing fund.

Inventories - Inventories of materials and supplies are valued at cost, principally using the first-in/first-out method. The costs of governmental fund-type inventories are recorded as expenditures when purchased. Inventory balances are recorded as a reserve of fund balance indicating that they do not constitute "available spendable resources."

Fixed Assets - Purchases of general fixed assets of the governmental funds are recorded as expenditures of those funds, with the related assets recorded in the General Fixed Asset Account Group. General fixed assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value or estimated fair market value at the time of the donation. The costs of normal maintenance and repairs that do not add value to the asset or materially extend asset lives are not capitalized. Public domain general fixed assets ("infrastructure"), consisting of roads, bridges, streets, sidewalks, drainage systems and lighting systems, are not capitalized as these assets are immovable and of value only to the government. Assets in the General Fixed Assets Account Group are not depreciated.

Fixed assets held in the enterprise funds and discretely presented component units have been valued in the same manner as the General Fixed Asset Account Group. The fixed assets of these funds are depreciated on a straight-line basis over their estimated useful lives. Buildings are depreciated over various lives, ranging from 20 to 50 years, machinery and equipment 3 to 35 years and vehicles 5 years.

Contributed Capital - The Revolving Loan Fund Program records contributed capital for federal grants used to fund the program. As grants are received from the Environmental Protection Agency ("EPA"), the State recognizes such grants as a direct contribution to equity.

Compensated Absences - The amount of compensated absences to be paid from future resources is reported in the General Long-Term Debt Account Group. Vested or accumulated vacation leave of the proprietary, higher education fund and component units is recorded as an expense and an accrued liability of these funds as the benefits accrue to employees.

Fund Equity - Reserves represent those portions of fund equity that are not available for appropriation or legally segregated for a specific future use.

Total Columns (Memorandum Only) - Total columns on the general purpose financial statements are captioned "memorandum only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations or cash flows in accordance with generally accepted accounting principles, nor is such data comparable to a consolidation.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2: BUDGETARY BASIS REPORTING - BUDGETARY PROCESS

State finance law requires that a balanced budget be approved by the Governor and the General Assembly. The Governor presents an annual budget to the General Assembly which includes an estimate of revenues, expenditures and other financing sources and uses anticipated during the coming biennial period. The General Assembly, which has full authority to amend the budget, adopts a line item budget by appropriating monies in biennial appropriation acts. The State does not adopt a revenue budget but does monitor the revenues and forecast of revenues and makes appropriate revisions to the expenditure budget based on such forecasts. These forecasts are adjusted quarterly to reflect actual receipts of revenues.

Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the biennial appropriation may be made via supplemental appropriation acts or other subsequent legislative acts. These also must be approved by the General Assembly and signed by the Governor and are subject to the line item veto.

The General Assembly also must enact legislation pursuant to the Revenue Stabilization Law (the "Stabilization Law") to provide an allotment process of funding appropriations in order to comply with the state law prohibiting deficit spending. The Governor may restrict spending to a level below appropriations amounts. The State uses specific "internal sub funds" (i.e. general and special revenue allotment accounts) for receipt and distribution of revenues. Pursuant to the Stabilization Law, all receipts are deposited in the General Revenue Allotment Account. From the General Revenue Allotment Account, 3% of all revenues are distributed to the Constitutional Officers Fund and the Central Services Fund to provide support for the State's elected constitutional offices (legislators, executive department and judges), their staffs and the Department of Finance and Administration ("DF&A"). The balance is then distributed to separate funds proportionately as established by the Stabilization Law. Special revenues are deposited into the Special

Revenue Allotment Account from which 3% of revenues collected by DF&A and 1 1/2% of all special revenues collected by other agencies are first distributed to provide support for the State's elected officials, their staffs and DF&A. The balance is then distributed to the funds for which the special revenues were collected as provided by law. Special revenues, which are primarily user taxes, are generally earmarked for the program or agency providing the related service.

General revenues are transferred into funds established and maintained by the Treasurer for major programs and agencies of the State in accordance with funding priorities established by the General Assembly.

Pursuant to the Stabilization Law, the General Assembly establishes three levels of priority for general revenue spending levels, "A," "B" and "C". Successive levels of appropriations are funded only in the event sufficient revenues have been generated to fully fund any prior level. Accordingly, appropriations made to programs and agencies are only maximum authorizations to spend. Actual expenditures are limited to the lesser of monies flowing into programs or agencies' funds maintained by the Treasurer or the maximum appropriation by the General Assembly.

Each of these legally adopted internal sub-funds are accounted for on the cash basis. All prior fiscal year unpaid bills or claims that did not have sufficient funds and appropriation at the end of the fiscal year may be submitted by the agency to the Claims Commission. Upon approval of the claims, funds are appropriated in the following biennium to allow for payment, unless the claims are approved during a special session of the legislature.

The majority of the State's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the General Assembly has authorized that an unspent balance from the prior year be carried forward and made available for current spending. In addition, the General Assembly may direct that certain revenues be retained and made available for spending within a specific appropriation account.

The rate of spending of appropriations is controlled by DF&A. DF&A utilizes quarterly allotments which restrict spending to a certain percentage of the annual appropriation. The percentage is established to coincide with the expected actual rate of revenue collections, thereby ensuring adequate cash flow throughout the year.

DF&A has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account category basis. Budgetary control is maintained through the Arkansas Accounting Federal Grants Management System ("AFGM"). AFGM ensures that expenditures are not processed if they exceed the appropriation account category's total available spending authorization, which is considered its budget. Generally, expenditures may not exceed the level of spending authorized. However, Arkansas law authorizes DF&A to transfer specific holding appropriations when other sources of funding are received, such as a federal grant.

An AFGM report, internally identified as AFGM R5901, is used by management and DF&A to monitor spending against budget. This report provides information at the individual appropriation account category level, which is the legal level of budgetary control, and is available from DF&A. For financial reporting, the State groups these appropriation account categories by function to conform to its organizational structure.

The State uses the General Fund to summarize the internal sub-funds, which represent accounts or activities that have been legally appropriated.

The following is a reconciliation of the statutory cash basis excess of revenues and other sources over expenditures and other uses of the General Fund to the GAAP basis excess of revenues and other sources over expenditures and other uses presented in the financial statements (expressed in thousands):

Excess of revenues and other sources over expenditures and other uses (statutory basis)	\$ 186,540
Non-appropriated excess of revenues and other sources over expenditures and other uses	13,248
Basis of accounting differences	<u>89,295</u>
Excess of revenues and other sources over expenditures and other uses (GAAP basis)	<u>\$ 289,083</u>

No supplemental appropriations were required during the fiscal year ended June 30, 1998.

NOTE 3: DEPOSITS AND INVESTMENTS

Cash

Arkansas Code requires that all cash fund agencies, other than the institutions of Higher Education, abide by the cash management and investments standards and procedures promulgated by the State Board of Finance. The stated primary goal of State cash management is the protection of principal, while maximizing investment earnings and minimizing non-interest bearing balances.

Cash and cash equivalents are defined as short-term highly liquid investments with original maturities of ninety days or less. The reported amount of total deposits at June 30, 1998, is as follows (expressed in thousands):

	<u>Primary Government</u>	<u>Component Units</u>
Reported amount of deposits	\$ 989,236	\$ 6,833
Bank balance of deposits	1,398,318	7,499
Amount insured or collateralized with securities held by the State or its agent in the State's name	1,046,687	548
Amount collateralized with securities held by the pledging financial institution's trust department or agent in the State's name	248,607	3,004
Uncollateralized, or collateralized with securities held by the pledging financial institution, or its trust department or agent but not in the State's name	103,024	3,947

The following schedule reconciles the reported amount of deposits as disclosed above to the combined balance sheet (expressed in thousands):

	Primary Government	Component Units
Reported amount of deposits	\$ 989,236	\$ 6,833
Cash on hand	1,247	
Undeposited receipts	21,813	
Cash held at U.S. Treasury	224,602	
Investments disclosed as cash equivalents for GASB 3	(26,990)	
Cash equivalents disclosed as investments for GASB 3	<u>1,693,704</u>	<u>210,867</u>
Cash and cash equivalents as reported on the combined balance sheet	<u>\$2,903,612</u>	<u>\$217,700</u>

Investments

State funds are invested by the Treasurer, as well as various state agencies, including the Retirement Systems, institutions of Higher Education, and Discretely Presented Component Units. Permissible investments include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); repurchase agreements; corporate debt and equity obligations; and state and local government securities.

Purchased and donated investments are generally stated at fair value, while investments held in an agency capacity and not for investment purposes are reported at amortized cost. In accordance with Statement No. 3 of the GASB, the State's investments are categorized to give an indication of the level of risk assumed. Category 1 includes investments that are insured or registered, or for which the securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

Primary Government -

Investments for the Primary Government at June 30, 1998, by security type and level of risk, are as follows (expressed in thousands):

	Category				
Security Type	1	2	3	Reported Amount	Fair Value
Categorized:					
U.S. Government securities	\$1,637,412	\$305,371	\$ 463,974	\$ 2,406,757	\$ 2,423,106
Commercial paper	143,748	253	74,555	218,556	218,556
Corporate securities	6,071,946	151,458	493,731	6,717,135	6,722,583
International securities	796,131		86,452	882,583	882,583
Repurchase agreements	166,690		297,151	463,841	463,841
Bank obligations	7,540	3,000	386,962	397,502	397,501
State and local government securities	40,477			40,477	41,965
Other categorized	<u>7,485</u>		<u>50</u>	<u>7,535</u>	<u>7,535</u>
Total Investments					
Categorized by Security Type	<u>\$8,871,429</u>	<u>\$460,082</u>	<u>\$1,802,875</u>	<u>11,134,386</u>	<u>11,157,670</u>
Uncategorized:					
Mutual funds				1,141,129	1,141,129
Securities lent for cash collateral				1,582,768	1,582,768
Commingled funds				197,615	197,615
Mortgage obligations				176,084	176,084
Real estate				40,125	40,125
Limited partnership investment				247,850	247,850
Private placements				19,525	19,525
Investment pool				248,556	248,556
Guaranteed investment contract				75,000	75,000
Other investments				<u>4,390</u>	<u>4,390</u>
Total				<u>\$14,867,428</u>	<u>\$14,890,712</u>

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	\$ 14,867,428
Investments disclosed as cash equivalents for GASB 3	26,990
Cash equivalents disclosed as investments for GASB 3	<u>(1,693,704)</u>
Investments as reported on the combined balance sheet	<u>\$ 13,200,714</u>

Component Units -

Investments for the Discretely Presented Component Units at June 30, 1998, by security type and level of risk, are as follows (expressed in thousands):

Security Type	Category			Reported Amount	Fair Value
	1	2	3		
Categorized -					
U.S. Government agency obligations	\$621,649		\$11,330	\$ 632,979	\$ 632,979
Total Investments					
Categorized by					
Security Type	\$621,649		\$11,330	632,979	632,979
Uncategorized:					
Guaranteed investment contracts				233,315	233,315
Mutual funds				210,868	210,868
Total				\$1,077,162	\$1,077,162

The following schedule reconciles the carrying amount of investments as disclosed above to the combined balance sheet (expressed in thousands):

Reported amount of investments	\$ 1,077,162
Cash equivalents disclosed as investments for GASB 3	(210,867)
Investments as reported on the combined balance sheet	\$ 866,295

NOTE 4: DERIVATIVES**Forward Currency Contracts**

Arkansas Public Employees Retirement System ("APERS"), Arkansas Teacher Retirement System ("Teacher"), and Arkansas State Police Retirement System ("State Police") enter into forward-exchange contracts to manage exposure of foreign portfolio holdings to changes in foreign currency exchange rates. A forward exchange contract is a commitment to purchase or sell a foreign currency at a future date at a negotiated forward rate. Risks associated with such contracts include movement in the value of the foreign currency related to the U.S. dollar and the ability of the counterparty to perform. The contracts are valued at forward exchange rates, and the changes in the value of open contracts are recognized as unrealized appreciation/depreciation in the statement of changes in plan net assets. The realized gain or loss on closed forward currency contracts represents the difference between the value of the original contracts and the closing value of such contracts and is included in net realized gain or loss on forward currency contracts in the statement of changes in plan net assets. At June 30, 1998, the retirement systems referred to above were party to outstanding forward exchange currency contracts to purchase foreign currencies with contract amounts of \$79.8 million, collectively. Market values of these outstanding contracts were \$77.9 million resulting in an unrealized net loss of approximately \$1.9 million. The retirement systems also had outstanding forward currency contracts to sell foreign currency with contract amounts of \$109 million at June 30, 1998. Market values of these contracts were \$108.9 million resulting in an unrealized net loss of approximately \$100 thousand.

Mortgage-Backed Securities

APERS, Teacher, and Arkansas State Highway Employees Retirement System ("ASHERS") invest in various asset-backed securities, mortgage-backed securities, and structured corporate debt. These securities are reported at fair value in the balance sheet. They are also included in the totals of government securities and corporate securities, depending on the issuer, in the disclosure of custodial credit risk (see Note 3 on Cash and Investments). The retirement systems referred to above invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and the market value of the underlying assets.

Interest Rate Swaps

ASLA has entered into an interest rate swap agreement to effectively convert \$32.7 million of fixed rate debt to variable rate debt with a weighted average interest rate based on the PSA Municipal Swap Index. The effective interest rate of the debt was 4.6% for the period ended June 30, 1998. The differential to be paid or received on the interest rate swap is accrued as interest rates change and is charged or credited to interest expense over the life of the agreement. ASLA's credit risk related to this interest rate swap agreement is generally the differential, if any, payable by the counterparty which accumulated prior to the June 1, and December 1, settlement dates each year. The ASLA is exposed to interest rate risk under the swap agreement and will incur interest expense above the related bond interest rates if the weighted PSA Municipal Swap Index rate exceeds 4.84%. The related PSA Municipal Swap Index rate was 3.45% at June 30, 1998. The interest rate swap agreement is set to expire June 1, 2003.

NOTE 5: SECURITIES LENDING ARRANGEMENTS

State Police, Teacher and APERS participate in security lending programs, as authorized by Arkansas Code Annotated Title 24, Chapter 3, Subchapter 4, Section 12, whereby investment securities are transferred to an independent broker or dealer in exchange for collateral in the form of cash and cash equivalents or other securities guaranteed by the U.S. Government or an agency thereof equal to at least 100% of the full market value of the security loaned. At all times during the term of each loan, the total value of the collateral is not to be less than 95% of the full market value of all securities on loan. The program is administered by custodial agent banks. The Code does not specify the types of securities that may be loaned. The type of securities on loan at June 30, 1998, includes domestic and international equities, domestic and international corporate fixed income securities, U.S. Treasury securities, government agency securities and non U.S. sovereigns. Securities on loan at fiscal year end for cash collateral are uncategorized in the preceding summary of deposits and investments (Note 3); securities on loan for non-cash collateral are classified by category of custodial credit risk based on the categorization appropriate for the collateral. With the exception of cash collateral, the pensions do not have the ability to pledge or sell the collateral unless there is borrower default. The pensions invest cash collateral received; accordingly, investments made with cash collateral received appear as assets on the Statement of Plan Net Assets and Combined Balance Sheet. As the pensions must return the cash collateral to the borrower upon expiration of the loan a corresponding liability is recorded in accrued and other liabilities. At June 30, 1998, cash collateral and investments made with cash collateral was approximately \$1.63 billion. These securities have also been classified in the preceding summary of deposits and investments (Note 3). The weighted average maturity of collateral investments generally does not match the maturity of the loans. The custodial agents provide the pensions with an indemnification if an insolvency causes the borrower to fail to return the securities lent. However, in the history of the pensions' participation in such programs, no losses resulting from default have occurred. Total securities on loan at June 30, 1998, was \$1.94 billion and total collateral received for these securities on loan was \$2 billion.

NOTE 6: CHANGES IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF PRIOR YEAR FUND EQUITY AND OTHER CREDITS

Fund equity and other credits at June 30, 1997, has been restated as follows (expressed in thousands):

	General	Proprietary	Higher Education	General Fixed Assets	Component Units
Fund equity and other credits:					
Balance as previously reported	\$ 1,393,863	\$ (13,481)	\$ 2,013,722	\$ 905,568	\$ 233,324
Cumulative effect of change in accounting principle	2,475		15,596		(10,697)
Restatement - correction of prior years amounts		104,027		39,251	(104,327)
Balance as of June 30, 1997, as adjusted	<u>\$ 1,396,338</u>	<u>\$ 90,546</u>	<u>\$ 2,029,318</u>	<u>\$ 944,819</u>	<u>\$ 118,300</u>
			Retained Earnings	Contributed Capital	Total
Proprietary detail:					
Balance as previously reported			\$ (13,481)		\$ (13,481)
Restatement - correction of prior years amounts			(2,005)	\$ 106,032	104,027
Balance as of June 30, 1997, as adjusted			<u>\$ (15,486)</u>	<u>\$ 106,032</u>	<u>\$ 90,546</u>

Changes in Accounting Principles

Effective July 1, 1997, the State adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which established fair value standards for certain investments. The effect of this adoption has been reflected as a cumulative adjustment to beginning fund equity.

Another standard was adopted that did not result in an adjustment to fund equity. GASB Statement No. 32, *Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, was adopted which established reporting requirements for IRC Section 457 plans. The adoption of this statement had no effect on fund equity, but did remove approximately \$131 million of assets and liabilities, respectively, as of June 30, 1997, of the IRC Section 457 Plan from the Trust and Agency Funds.

Restatement of Prior Year Fund Equity and Other Credits

Subsequent to the issuance of the State's 1997 general purpose financial statements, management of the State determined that certain fixed assets had inadvertently been excluded from the general fixed assets account group and accordingly has restated the June 30, 1997, balance for the fixed assets, net and investment in fixed assets in the general fixed asset account group.

Management of the State has also restated fund equity of the proprietary and component unit funds by approximately \$104 million to reflect the relationship of the Revolving Loan Fund Program in accordance with the requirements of GASB Statement No. 14, *The Financial Reporting Entity*.

Had the Revolving Loan Fund Program been reflected as part of the primary government at June 30, 1997, prior year net income for the proprietary fund type would have increased by \$852 thousand. Net income for the component units would have decreased by the same amount.

NOTE 7: RECEIVABLES (expressed in thousands)

Receivables at June 30, 1998, consisted of the following:

Primary Government -

	<u>Accounts</u>	<u>Taxes</u>	<u>Employer</u>	<u>Employee</u>	<u>Notes and Deposits</u>	<u>Medicaid</u>	<u>Loans</u>	<u>Investment Related</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable by Fund Type</u>
General Fund	\$107,419	\$253,160			\$41,855	\$120,466	\$131,673	\$ 14,719	\$ (59,791)	\$ 609,501
Enterprise Funds	10,705						168,709	2,414		181,828
Trust and Agency Funds	65,756		\$12,731	\$4,871				137,676	(17,629)	203,405
Higher Education Fund	130,154				40,184			899		171,237
Total	<u>\$314,034</u>	<u>\$253,160</u>	<u>\$12,731</u>	<u>\$4,871</u>	<u>\$82,039</u>	<u>\$120,466</u>	<u>\$300,382</u>	<u>\$155,708</u>	<u>\$ (77,420)</u>	<u>\$1,165,971</u>

Component Units -

	<u>Accounts</u>	<u>Loans</u>	<u>Investment Related</u>	<u>Allowance for Uncollectibles</u>	<u>Net Receivable by Component Unit</u>
ASLA		\$179,151	\$ 2,810	\$(1,725)	\$180,236
ADFA	\$20,992	505,407	6,264	(4,204)	528,459
Total	<u>\$20,992</u>	<u>\$684,558</u>	<u>\$ 9,074</u>	<u>\$(5,929)</u>	<u>\$708,695</u>

NOTE 8: INTERGOVERNMENTAL ACTIVITY (expressed in thousands)**Interfund Receivables and Payables**

	<u>Due from</u>	<u>Due to</u>
General Fund	\$ 569	\$ 5,213
Higher Education Fund - Current Funds	5,213	569
Total	<u>\$ 5,782</u>	<u>\$ 5,782</u>

**Receivables and Payables Between Primary Government and
Discretely Presented Component Units**

	<u>Due from</u>	<u>Due to</u>
General Fund	\$10,900	
Component Units - ADFA		\$10,900
Total	<u>\$10,900</u>	<u>\$10,900</u>

Intrafund Receivables and Payables

	<u>Due from</u>	<u>Due to</u>
Higher Education Fund:		
Current funds	\$ 5,685	\$ 9,084
Loan	117	1
Endowment and similar		117
Plant	5,380	2,107
Agency	128	1
Total	<u>\$ 11,310</u>	<u>\$ 11,310</u>

Advances to/from Other Funds - Primary Government

	<u>Advances to</u>	<u>Advances from</u>
General Fund	\$ 17,082	\$ 23,911
Trust and Agency Funds -		
Pension Trust - Teacher	23,911	
Higher Education Fund -		
Plant Fund		17,082
Total	<u>\$ 40,993</u>	<u>\$ 40,993</u>

***Advances to/from Primary Government and
Discretely Presented Component Units***

	<u>Advances to</u>	<u>Advances from</u>
Trust and Agency Funds -		
Pension Trust - Teacher	\$ 239	
Component Units - ADFA		\$ 239
Total	<u>\$ 239</u>	<u>\$ 239</u>

Operating Transfers

	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
General Fund	\$ 115	\$565,952
Enterprise Fund -		
Workers' Compensation Commission		115
Higher Education Fund:		
Current Funds	504,444	
Loan Fund	725	
Plant Fund	60,783	
Total	<u>\$566,067</u>	<u>\$566,067</u>

NOTE 9: FIXED ASSETS (expressed in thousands)**Primary Government -**

Changes in general fixed assets were as follows:

	Balance June 30, 1997 As Adjusted (Note 6)	Additions	Deletions	Balance June 30, 1998
Land	\$160,964	\$ 6,102		\$ 167,066
Buildings	547,328	59,578	\$ 28	606,878
Equipment	191,116	28,601	12,305	207,412
Construction in progress	45,411	12,882	11,748	46,545
Total	<u>\$944,819</u>	<u>\$107,163</u>	<u>\$24,081</u>	<u>\$1,027,901</u>

At June 30, 1998, fixed assets by category in other funds consisted of the following amounts:

	Enterprise Funds	Pension Trust Funds	Higher Education Fund
Land	\$ 580		\$ 122,400
Buildings	1,946		1,166,308
Equipment	1,743	\$ 1,653	402,138
Construction in progress			77,499
Other			130,384
Subtotal	<u>4,269</u>	<u>1,653</u>	<u>1,898,729</u>
Less: Accumulated Depreciation	<u>(1,554)</u>	<u>(869)</u>	
Total	<u>\$ 2,715</u>	<u>\$ 784</u>	<u>\$1,898,729</u>

Component Units -

At June 30, 1998, fixed assets reported in the State's discretely presented component units consisted of the following amounts:

Equipment	\$ 965
Other	618
Subtotal	<u>1,583</u>
Less: Accumulated Depreciation	<u>1,006</u>
Total	<u>\$ 577</u>

NOTE 10: SUMMARY OF LONG-TERM DEBT

The State records its long-term liabilities in the General Long-Term Debt Account Group. These liabilities include general obligation bonds, special obligations bonds, notes payable to component units, other debt instruments, capital leases, capital leases with component units, claims and judgments payable in future years, accrued compensated absences and unfunded pension costs.

The following schedule shows the changes in the General Long-Term Debt Account Group for the year ended June 30, 1998 (expressed in thousands):

	Balance June 30, 1997	Debt Issued	Debt Paid	Other Changes	Balance June 30, 1998
Bonds:					
General obligation	\$299,101	\$110,624	\$(18,979)	\$ 9,656	\$400,402
Special obligation	10,720		(4,925)		5,795
Other debt instruments	8,623		(876)		7,747
Notes payable to component unit		53,105	(1,110)		51,995
Capital leases	40,217	73	(12,560)		27,730
Capital leases with component unit	87,125		(6,388)		80,737
Claims and judgments	98,476			43,752	142,228
Compensated absences	69,831			(7,965)	61,866
Unfunded pension costs	6,046			(580)	5,466
Total	<u>\$620,139</u>	<u>\$163,802</u>	<u>\$(44,838)</u>	<u>\$44,863</u>	<u>\$783,966</u>

Primary Government -

Governmental Fund Type Operations

General Obligation Bonds - The Constitution of the State does not limit the amount of general obligation bonds which may be issued by the State; however, no such bonds may be issued unless approved by the voters of the State at a general election or a special election held for that purpose.

General obligation bonds outstanding at June 30, 1998, including accrued accreted interest of approximately \$35.4 million on capital appreciation bonds, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rates %	Balance
Soil and Water Conservation Bonds:			
1992A Series Water Resources G.O. Bonds	2021	5.20 - 6.38	\$ 18,265
1995A Series Water Resources G.O. Bonds	2024	4.50 - 5.60	5,035
1995B Series Water Resources G.O. Bonds	2025	4.10 - 5.75	7,170
1996A Series Water Resources G.O. Bonds	2017	4.50 - 5.38	11,820
1996B Series Water Resources G.O. Bonds	2025	4.70 - 5.85	7,415
1997A Series Water Resources G.O. Bonds	2026	4.00 - 5.70	15,000
1997B Series Water Resources G.O. Bonds	2026	3.80 - 5.25	14,700
1998 Series Water Resources G.O. Bonds	2027	4.50 - 4.88	9,955
1992B Series Waste Disposal G.O. Bonds	2020	4.80 - 6.25	9,350
1994A Series Waste Disposal G.O. Bonds	2008	4.60 - 5.50	8,955
1995A Series Waste Disposal G.O. Bonds	2025	4.00 - 5.50	2,420
1996A Series Waste Disposal G.O. Bonds	2025	5.10 - 5.63	4,945
1997A Series Waste Disposal G.O. Bonds	2026	3.80 - 5.25	5,000
1998A Series Waste Disposal G.O. Bonds	2027	4.50 - 5.05	10,000
College Savings Bonds:			
1991A Series, G.O. Bonds	2011	6.15 - 7.00	17,525
1991B Series, G.O. Bonds	2012	6.10 - 7.00	25,371
1991C Series, G.O. Bonds	2013	5.70 - 6.90	15,947
1993 Series, G.O. Bonds	2014	4.80 - 5.95	18,684
1995 Series, G.O. Bonds	2015	4.10 - 5.90	22,319
1996A Series, G.O. Bonds	2016	3.85 - 5.65	24,063
1996B Series, G.O. Bonds	2016	4.40 - 6.30	17,304
1996C Series, G.O. Bonds	2016	4.15 - 6.00	28,301
1997A Series, G.O. Bonds	2017	4.40 - 6.05	29,921
1997B Series, G.O. Bonds	2017	4.40 - 5.60	29,204
1998A Series, G.O. Bonds	2017	3.75 - 5.35	41,733
Total			<u>\$400,402</u>

Future amounts required to pay principal and interest on general obligation bonds at June 30, 1998, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
1999	\$ 21,787	\$ 10,691	\$ 32,478
2000	20,724	11,869	32,593
2001	20,968	12,048	33,016
2002	18,417	14,619	33,036
2003	20,711	14,150	34,861
Thereafter	262,349	225,715	488,064
Total	<u>\$364,956</u>	<u>\$289,092</u>	<u>\$654,048</u>

Details of general obligation bonds outstanding are as follows:

State Water Resources Development General Obligation Bonds - Act 496 of 1981, as amended, authorized the Soil and Water Conservation Commission to issue State Water Resources Development General Obligation Bonds. All bonds issued under the authority of this Act are general obligations of the State of Arkansas and are secured by an irrevocable pledge of the full faith, credit and resources of the State. The Act limited the total principal amount to \$100 million with no more than \$15 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of water resources projects in the State of Arkansas approved and implemented by the Arkansas Soil and Water Conservation Commission with the exception of the portion of the Series 1992A and the Series 1996A bonds. A portion of the Series 1992A bonds were issued to refund the outstanding principal amount of the Water Series 1985 bonds. The Series 1996A bonds were issued to defease the outstanding principal of the Water Series 1989A bonds.

State Waste Disposal and Pollution Abatement Facilities General Obligation Bonds - Act 686 of 1987, as amended, authorized the State to issue Waste Disposal and Pollution Abatement Facilities General Obligation Bonds. All bonds issued under the authority of this act are general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act limited the total principal amount to \$250 million with no more than \$50 million being issued during any fiscal biennium unless the General Assembly by law authorizes a greater amount to be issued. The bonds were issued to provide financing for the development of waste disposal and pollution abatement facilities projects in the State of Arkansas with the exception of the Series 1992B and 1994A bonds which were issued to refund the outstanding principal amount of Waste Series 1990A and 1992A bonds, respectively. The bonds are payable from the general revenues of the State, any repayments on project loans and investment earnings on the proceeds of the bonds.

College Savings General Obligation Bonds - Act 683 of 1989, as amended, authorized the State to issue College Savings General Obligation Bonds. All bonds issued under the authority of this act are direct general obligations of the State and are secured by an irrevocable pledge of the full faith, credit, and resources of the State. The Act provides that no more than \$100 million may be issued in any fiscal biennium unless the General Assembly of the State shall, by law, authorize a greater principal amount thereof to be issued. The College Series bonds were issued to provide funds to finance capital improvements projects at State institutions of higher education. The bonds are payable from the net general revenues of the State and investment earnings on the proceeds of the bonds.

Special Obligation Bonds - Special obligation bonds are issued by various state departments, agencies and authorities which are part of the primary government. Special obligation bonds are issued pursuant to specific statutory provisions enacted by the Legislature. Principal and interest payments are made from specifically dedicated fees and other revenues generated by the appropriate program. Special obligation bonds do not constitute general debt of the State.

Special obligation bonds outstanding at June 30, 1998, were as follows (expressed in thousands):

	<u>Final Maturity Date</u>	<u>Interest Rate(s) %</u>	<u>Balance</u>
Arkansas Economic Development Commission - Guaranty Fund Revenue Bonds - 1990 Series	2000	6.50	\$1,335
Vocational and Technical Education:			
Capital Improvement - 1985 A Series	2000	8.90 - 9.00	265
Capital Improvement - 1992 A Series	2012	5.70 - 6.38	1,330
Department of Parks and Tourism -			
State Parks Revenue System - 1971 Series	2001	5.00 - 6.75	770
War Memorial Stadium Commission -			
Revenue Improvement Bonds - 1995 Series	2000	6.25	<u>2,095</u>
Total			<u><u>\$5,795</u></u>

Future amounts required to pay principal and interest on special obligation bonds at June 30, 1998, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
1999	\$1,705	\$ 340	\$2,045
2000	1,825	228	2,053
2001	1,130	114	1,244
2002	75	71	146
2003	80	67	147
Thereafter	<u>980</u>	<u>337</u>	<u>1,317</u>
Total	<u><u>\$5,795</u></u>	<u><u>\$1,157</u></u>	<u><u>\$6,952</u></u>

Details of special obligation bonds outstanding are as follows:

Arkansas Economic Development Commission - The \$5.3 million Arkansas Economic Development Commission Guaranty Fund Revenue Bonds, Series 1990, dated April 1, 1990, were issued under the authority of Arkansas Code Annotated 15-4-701 and pursuant to a resolution duly adopted by the Arkansas Economic Development Commission. The proceeds from the sale of the bonds were used to replenish monies held in the Commission's Bond Reserve Guaranty Fund. The bonds are payable from earnings derived by the State Board of Finance from investment of State Treasury balances.

Vocational and Technical Education - The capital improvement revenue bonds were issued under the authority of Act 6 of the First Extraordinary Session of 1968, as amended. The bonds are special obligations of the Department of Workforce Education and are payable from and secured solely by pledged revenues and investment earnings on the proceeds of the bonds. The proceeds from the sale of the bonds were used to finance various capital improvements at vocational technical schools.

Department of Parks and Tourism - Act 399 of 1953 authorized the Department to borrow money and issue bonds for the improvement of parks in the State Parks System. The 1971 series bonds debenture is secured by a pledge of gross revenues derived from operation and/or ownership of the State Parks System. This debenture does not constitute an indebtedness for which the faith and credit of the State of Arkansas or any of its revenues are pledged and is not secured by a mortgage or lien on any State Parks System facility. The 1971 bonds were issued to provide financing for a portion of the cost of constructing improvements to various parks in the State Parks System. The bonds are payable from revenues generated by the State Parks System.

War Memorial Stadium Commission - The War Memorial Stadium Commission Stadium Improvement Revenue Bonds Series 1995, dated December 15, 1995, in the amount of \$3.15 million were issued under the provisions of Amendment 65 to the Constitution of the State of Arkansas and Arkansas Code Annotated Sections 22-3-1001 *et seq.* for the purpose of financing the cost of acquiring, constructing and equipping betterments and improvements to War Memorial Stadium located in Little Rock, Arkansas, and paying costs of issuing the bonds. The bonds are payable from net revenues derived by the Commission from the operation of the Stadium.

Other Debt Instruments - Other debt instruments are similar to special obligation bonds in regard to the methods of issuance and the sources of repayment of principal and interest.

Other debt instruments outstanding at June 30, 1998, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Certificates of Indebtedness:			
State Building Services - 1984 Issue "A"	2003	8.50	\$ 1,312
State Building Services - 1984 Issue "C"	2003	8.50	3,191
State Building Services - 1985 Issue "D"	2003	8.50	1,346
State Building Services - 1986 Issue "E"	2003	8.50	128
Arkansas Economic Development Commission Bond Reserve Guaranty Fund - Issues in Default	2010	various	1,770
Total			<u>\$ 7,747</u>

Future amounts required to pay principal and interest on other debt instruments at June 30, 1998, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
1999	\$ 944	\$ 590	\$ 1,534
2000	978	511	1,489
2001	1,062	427	1,489
2002	1,148	337	1,485
2003	1,240	238	1,478
Thereafter	2,375	397	2,772
Total	<u>\$7,747</u>	<u>\$2,500</u>	<u>\$10,247</u>

Details of other debt instruments are as follows:

State Building Services - Act 458 of 1983 authorized State Building Services to issue certificates of indebtedness designated as State Building Services Certificates of Indebtedness. These certificates of indebtedness are special obligations secured solely by a lien on and pledge of specific pledged revenues. The Act limited the total principal amount to \$25 million. The proceeds of the sale of certificates of indebtedness were used to construct facilities for the Department of Correction and to construct and equip facilities at State supported institutions of higher education. Debt service requirements are met by certain pledged revenues.

Arkansas Economic Development Commission ("AEDC") - The AEDC Bond Reserve Guaranty Fund is used to guarantee amortization payments on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 1998, total bonds guaranteed by the AEDC Bond Reserve Guaranty Fund amounted to approximately \$42 million of which bonds totaling approximately \$1.8 million were in default status and are recorded in the General Long-Term Debt Account Group.

Notes Payable to Component Units - Notes payable to component units consist of notes issued to ADFA for construction and renovation of various State agency facilities. Principal and interest payments are made from specifically dedicated fees and other revenues sources. The outstanding balance of the notes payable to component units at June 30, 1998, was approximately \$52 million.

Future amounts required to pay principal and interest on notes payable to component units at June 30, 1998, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
1999	\$ 1,440	\$ 2,684	\$ 4,124
2000	1,565	2,587	4,152
2001	1,645	2,511	4,156
2002	1,715	2,437	4,152
2003	1,795	2,359	4,154
Thereafter	43,835	21,545	65,380
Total	<u>\$ 51,995</u>	<u>\$34,123</u>	<u>\$ 86,118</u>

Proprietary Fund

Revolving Loan Fund Program (the "Program") - ADFA issues special obligation bonds on behalf of the Program. The Program uses the proceeds to support operations. The Program is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities. The bonds are payable solely from loan repayments, interest on investments, and financing fees generated by the Program. The State is not obligated to pay the bonds, and neither the faith and credit nor the taxing power of the State is pledged to the payment of principal or redemption price or interest on the bonds.

Future amounts required to pay principal and interest on the special obligation bonds at June 30, 1998, were as follows (expressed in thousands):

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year Ending June 30:			
1999	\$ 3,155	\$ 5,323	\$ 8,478
2000	3,535	5,178	8,713
2001	3,705	5,012	8,717
2002	3,885	4,834	8,719
2003	4,090	4,642	8,732
Thereafter	84,315	36,048	120,363
Total	<u>\$102,685</u>	<u>\$61,037</u>	<u>\$163,722</u>

Higher Education Fund

Colleges and Universities - The Boards of Trustees of State supported colleges and universities are authorized to issue revenue bonds and notes for the purpose of financing all or part of the acquisition of land, the construction or renovation of buildings and the acquisition of furnishings or equipment for any such buildings of all State colleges and universities. The bonds, which are not general debt of the State, are payable from student tuition and other fees.

At June 30, 1998, college and university revenue bonds and notes payable outstanding were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Henderson State University	2018	3.00 - 8.00	\$ 9,383
Southern Arkansas University	2014	3.00 - 8.75	4,873
Southern Arkansas University Tech	2015	4.90	765
Arkansas State University - Beebe	2012	3.00 - 6.94	1,862
Arkansas State University	2009	3.00 - 7.50	16,130
Arkansas State University - Mountain Home	2018	5.00	6,500
Arkansas Tech University	2016	2.88 - 7.50	2,448
University of Arkansas at Fayetteville	2022	3.00 - 7.50	60,040
University of Arkansas at Little Rock	2010	2.88 - 6.50	32,580
University of Arkansas for Medical Sciences	2019	1.40 - 6.62	97,931
University of Arkansas at Monticello	2018	2.88 - 3.63	5,725
University of Arkansas at Pine Bluff	2027	variable	12,386
University of Central Arkansas	2028	2.75 - 8.00	42,514
University of Arkansas at Hope Community College	2018	5.75	4,145
East Arkansas Community College	2012	3.50 - 6.00	2,025
Garland County Community College	2017	5.50 - 6.50	3,810
Mid-South Technical College	2018	5.02 - 5.36	5,950
Mississippi County Community College	2018	5.40 - 6.00	3,415
North Arkansas Community Technical College	2016	4.10 - 6.00	3,154
Phillips Community College of the University of Arkansas	2017	3.90 - 8.00	6,629
Westark Community College	2017	4.00	28,845
Northwest Arkansas Community College	2012	5.60	4,830
Pulaski Technical College	2018	variable	4,785
Total			<u>\$ 360,725</u>

Future amounts required to pay principal and interest on college and university revenue bonds and notes payable as of June 30, 1998, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
1999	\$ 17,260	\$ 14,293	\$ 31,553
2000	18,493	13,508	32,001
2001	19,145	12,767	31,912
2002	18,280	12,011	30,291
2003	18,704	11,253	29,957
Thereafter	268,843	88,942	357,785
Total	<u>\$360,725</u>	<u>\$152,774</u>	<u>\$513,499</u>

Component Units -

Arkansas Student Loan Authority - Revenue bonds are issued by ASLA pursuant to Act 873 of 1977 to make loans directly to students and purchase qualified student loans from Arkansas lending institutions or loans made by non-Arkansas institutions to Arkansas residents. Principal and interest payments are made from specifically dedicated revenues generated by ASLA. Revenue bonds do not constitute general debt of the State.

Revenue bonds outstanding at June 30, 1998, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Student Loan Revenue Bonds, Series 1991	2002	4.75 - 7.15	\$ 1,800
Student Loan Revenue Bonds, Series 1992A-1	2006	5.25 - 6.40	52,070
Student Loan Revenue Bonds, Series 1992A-2	2006	6.13 - 6.75	5,540
Student Loan Revenue Bonds, Series 1993A-1	2006	5.00 - 6.13	6,065
Student Loan Revenue Bonds, Series 1994A	2009	adjustable	53,400
Student Loan Revenue Bonds, Series 1994B	2009	7.25	6,600
Student Loan Revenue Refunding Bonds, Series 1996A	2010	adjustable	42,900
Student Loan Revenue Refunding Bonds, Series 1996B	2010	6.25	14,000
Student Loan Revenue Bonds, Series 1997A	2014	adjustable	31,150
Student Loan Revenue Refunding Bonds, Series 1997B	2014	5.10 - 5.60	17,400
Total			<u>\$230,925</u>

Future amounts required to pay principal and interest on revenue bonds at June 30, 1998, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
1999	\$ 1,665	\$ 12,002	\$ 13,667
2000	12,860	11,776	24,636
2001	18,335	10,872	29,207
2002	13,765	9,885	23,650
2003	6,880	9,132	16,012
Thereafter	177,420	61,147	238,567
Total	<u>\$230,925</u>	<u>\$114,814</u>	<u>\$345,739</u>

Arkansas Development Finance Authority - Pursuant to Act 1062, ADFA is authorized and empowered to issue bonds and various other debt instruments for the purpose of financing qualified agricultural business enterprises, capital improvement facilities, educational facilities, health care facilities, housing developments and industrial enterprises.

Bonds and other debt instruments issued by ADFA are special obligations of ADFA payable solely from and collateralized by a first lien on the proceeds, monies, revenues, rights, interests and collections pledged therefore under the resolutions authorizing the particular issues. The State is not obligated to pay the bonds and other debt instruments, and neither the faith and credit nor the taxing power of the State is pledged to the payment of the principal or redemption price of or interest on the bonds and other debt instruments. ADFA has no taxing power.

Bonds payable at June 30, 1998, were as follows (expressed in thousands):

	Final Maturity Date	Interest Rate(s) %	Balance
Single Family Bonds Payable	2030	3.70 - 11.42	\$ 852,501
Multi-Family Bonds Payable	2027	4.15 - 9.40	87,753
Development Finance Programs Bonds Payable	2030	3.50 - 10.60	281,138
Other Program Bonds Payable	2019	4.00 - 9.75	164,299
Total			<u>\$1,385,691</u>

Future amounts required to pay principal, sinking fund redemptions of \$151 thousand and interest on ADFA debt at June 30, 1998, were as follows (expressed in thousands):

	Principal	Interest	Total
Year Ending June 30:			
1999	\$ 43,624	\$ 85,929	\$ 129,553
2000	34,299	83,755	118,054
2001	39,435	81,382	120,817
2002	39,975	78,946	118,921
2003	41,206	76,207	117,413
Thereafter	1,187,152	942,529	2,129,681
Total	<u>\$1,385,691</u>	<u>\$1,348,748</u>	<u>\$2,734,439</u>

Current Year Defeasances

Primary Government -

On November 1, 1997, University of Arkansas Fayetteville issued \$19.17 million Board of Trustees of University of Arkansas Athletic Facilities Revenue Refunding Bonds (Fayetteville Campus), series 1997 to defease \$17.825 million of Athletic Facilities Revenue Bonds, Series 1991. Bond proceeds of \$18.99 million were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to reduce the aggregate debt service payment by approximately \$1.56 million over the next 14 years and realized an economic gain (difference between present value of the old and new debt service payments) of approximately \$901,000.

On November 1, 1997, Henderson State University issued \$3 million Board of Trustees of Henderson State University Student Fee Secured Refunding Bonds, Series 1997 to defease \$2.8 million Student Fee Secured Improvement Bonds, Series 1990. Bond proceeds of \$2.8 million were used to purchase U.S. Government Securities. These securities were deposited in an irrevocable trust with an escrow agent to reduce the

aggregate debt service payment by approximately \$1.1 million over the next 21 years and realized an economic gain (difference between present value of the old and new debt service payments) of approximately \$389 thousand.

On June 30, 1998, the University of Arkansas for Medical Sciences refunded the Parking System Revenue Bonds, Series 1992, with the issuance of the Parking System Revenue Construction and Refunding Bonds (UAMS Campus), Series 1998, in the amount of \$14.3 million. \$5.5 million was deposited in an escrow account for the defeasance of the 1992 bonds. The difference in cash flows for servicing the old and new debt and to complete the refunding is a negative \$2.1 million. The economic loss resulting from the refunding is \$1.7 million.

Prior Defeasances

Primary Government -

In prior years, the State defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$125 million are considered defeased at June 30, 1998.

Component Units -

In prior years, ADFA defeased certain bonds by placing the proceeds of new bonds in irrevocable trusts to provide for all future debt service payments of old bonds. Accordingly, these trust account assets and the liability for the defeased bonds are not included in these financial statements. Bonds with total outstanding amounts of approximately \$78 million are considered defeased at June 30, 1998.

NOTE 11: LEASES

The State has entered into various lease agreements with the private sector, primarily for buildings and equipment. These agreements are for various terms with most containing clauses indicating that their continuation is subject to continuing appropriation by the Legislature. Other leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease.

The State also has lease agreements for buildings and equipment which are accounted for as capital leases. FASB Statement No. 13, *Accounting for Leases*, requires a lease that transfers substantially all of the benefits and risks of ownership to the lessee to be accounted for as the acquisition of a fixed asset and the incurrence of an obligation by the lessee. Capital leases for the nongovernmental funds are reported as a long-term obligation in those funds along with the related assets. Capital leases for the Governmental Funds are reported in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

The State also has direct-financing lease agreements with ADFA. These leases are reported separately from other capital leases in the General Long-Term Debt Account Group and the related assets are reported in the General Fixed Assets Account Group.

Most of these leases contain a fiscal funding addendum stating that the lease shall terminate on the last day of the fiscal year if appropriated funds for the ensuing fiscal year are insufficient. However, these leases are accounted for as capital leases and are considered non-cancelable for financial reporting purposes.

Future minimum commitments under operating and capital leases by fund type as of June 30, 1998, were as follows (expressed in thousands):

	Capital Leases	
	GLTDAG	Higher Education Fund
Year Ending June 30:		
1999	\$ 7,686	\$ 2,409
2000	5,945	1,239
2001	5,656	748
2002	5,457	417
2003	2,430	151
Thereafter	<u>6,096</u>	<u>53</u>
Total Minimum Lease Payments	33,270	5,017
Less: Interest	<u>5,540</u>	<u>434</u>
Present Value of Future Minimum Lease Payments	<u>\$ 27,730</u>	<u>\$ 4,583</u>

	Capital Leases with Component Unit		
	GLTDAG	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
1999	\$ 8,236	\$ 239	\$ 156
2000	8,229	239	156
2001	8,230	244	155
2002	8,210	242	154
2003	8,226	241	157
Thereafter	<u>79,202</u>	<u>2,176</u>	<u>479</u>
Total Minimum Lease Payments	120,333	3,381	1,257
Less: Interest	<u>39,596</u>	<u>1,240</u>	<u>365</u>
Present Value of Future Minimum Lease Payments	<u>\$ 80,737</u>	<u>\$ 2,141</u>	<u>\$ 892</u>

	Operating Leases		
	General Government	Proprietary Fund	Higher Education Fund
Year Ending June 30:			
1999	\$ 10,221	\$ 182	\$ 2,751
2000	7,011	116	1,909
2001	5,678		1,377
2002	2,799		1,062
2003	2,018		999
Thereafter	10,629		469
Total Minimum Lease Payments	<u>\$ 38,356</u>	<u>\$ 298</u>	<u>\$ 8,567</u>

NOTE 12: FUND EQUITY***Designations***

Detail of designated general fund balance as of June 30, 1998, is as follows (expressed in thousands):

Continuing appropriations	\$ 63,726
Debt service	22,785
Budget stabilization	1,297,897
Total (memorandum only)	<u>\$ 1,384,408</u>

Designations for budget stabilization reflect the intent of Arkansas financial laws with regard to future use of current financial resources.

Deficit Retained Earnings

The WCC had an \$11.3 million deficit in retained earnings as of June 30, 1998. The deficit was generated by a change in actuarial assumptions during the fiscal year ended June 30, 1997. If the deficit is not eliminated by normal operations, the WCC has the ability to increase rates to alleviate such deficit.

The Revolving Loan Fund Program had a \$668 thousand deficit in retained earnings as of June 30, 1998. Management of the Revolving Loan Fund Program are confident that the deficit will be eliminated through normal operations.

Contributed Capital

The changes in the State's contributed capital accounts for its proprietary funds were as follows:

	Revolving Loan Fund
Beginning balance, as adjusted (Note 6)	\$ 106,032
Capitalization of federal grants	8,472
Ending balance	<u>\$ 114,504</u>

NOTE 13: PENSIONS

Plan Descriptions - The State contributes to three single-employer defined benefit pension plans: Arkansas Judicial Retirement Plan ("Judicial"), Arkansas Highway and Transportation Retirement Plan ("Highway") and State Police. State Police and Judicial are administered by Arkansas Public Employees Retirement System, and Highway is administered by the plan itself. Each plan provides retirement, disability, and death benefits, in accordance with benefit provisions as established and amended by State Statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

<u>Arkansas Judicial Retirement Plan</u>	<u>Arkansas Highway and Transportation Retirement Plan</u>	<u>Arkansas State Police Retirement Plan</u>
One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855	P. O. Box 2261 Little Rock, AR 72203 (501) 569-2000	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

The State also contributes to two cost-sharing multiple-employer defined benefit plans: Teacher, administered by the Arkansas Teacher Retirement System Board of Trustees, and APERS, administered by the Arkansas Public Employees Retirement System Board of Trustees, which provide retirement, disability and death benefits and annual cost of living adjustments to plan members and beneficiaries. Benefit provisions are established and amended by state statute (A.C.A.24). Each plan issues a publicly available financial report, which may be obtained by writing or calling the appropriate plan:

<u>Arkansas Teacher Retirement Plan</u>	<u>Arkansas Public Employees Retirement Plan</u>
1400 West Third Street Little Rock, AR 72201 (501) 682-1517	One Union National Plaza 124 W. Capitol, 5th Floor Little Rock, AR 72201 (501) 682-7855

For the year ended June 30, 1998, the payroll of State employees covered by the pension plans was approximately \$797 million.

Funding Policies - State statute establishes the contribution requirements of plan members and the State. The State's annual pension cost for the current year and related information for each plan is as follows:

	<u>Judicial</u>	<u>Teacher</u>	<u>State Police</u>	<u>Highway</u>	<u>APERS</u>
Number of participating employers/contributing entities	1	428	1	1	780
Contribution rates for the fiscal year ended June 30, 1998 (% of covered payroll):					
State	29.62 %	12.00 %	34.44 %	12.90 %	10.00 %
Plan members - contributory plans	6.00 %	6.00 %	0.00 %	6.00 %	6.00 %
Annual pension cost (in thousands)	\$3,183	\$158,963	\$6,632	\$13,976	\$87,529
Contributions made (in thousands)	\$4,565	\$158,963	\$7,212	\$13,976	\$87,529

The required contribution amounts and the percentage contributed for Teacher and APERS for the current year and each of the two preceding years are as follows:

<u>Fiscal Year</u>	<u>Plan</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
1998	Teacher	\$158,963	100 %
	APERS	87,529	100 %
1997	Teacher	\$153,546	100 %
	APERS	82,051	100 %
1996	Teacher	\$ 15,703	100 %
	APERS	76,730	100 %

State Police and APERS consist of both a contributory plan, which has been in effect since the beginning of the plans, and is available to all persons who became members prior to January 1, 1978; and a non-contributory plan, which was created by Act 793 of 1977 and was effective January 1, 1978. The non-contributory plan applies automatically to all persons hired January 1, 1978, or later. All non-retired members of the State Police are now covered by non-contributory benefits. Members of the Teacher plan contribute 6% of their salaries, except for members who became members before July 1, 1971, who can contribute only on the first \$7,800 of their annual salary; and effective July 1, 1993, all new members, including any former active members, are automatically non-contributory members. By individual election, members of the Teacher plan may choose to contribute. Active members of the Judicial plan contribute 6% of their salaries. Members of the Judicial plan with 20 or more years of service and members age 65 or older

with ten or more years of service do not contribute to the plan. Active members of the Highway plan contribute 6% of their salaries. None of the aforementioned plans has investments of any commercial or industrial organization whose market value equals 5% or more of the individual plan's net assets available for benefits.

The State's 1998 contribution to APERS represented 76.7% of total contributions required of all participating entities. Beginning with the 1997 fiscal year, the State no longer contributes to Teacher. As required by Act 1194 of 1995, the State increased the local state supported school appropriations so that such retirement contributions come directly from the school districts.

The State's annual pension cost and net pension obligation to State Police for the current year is as follows (in thousands):

Annual required contribution ("ARC")	\$ 6,558
Interest on net pension obligation	426
Adjustment to annual required contribution	(352)
Annual pension cost	6,632
Contributions made	7,212
Decrease in net pension obligation	(580)
Net pension obligation, beginning of year	6,046
Net pension obligation, end of year	<u>\$ 5,466</u>

The State has a net pension asset of approximately \$10.5 million for Judicial at June 30, 1998. For Highway, the statutory contributions made by the State equaled the annual required contributions ("ARC") required by GASB 27 for each of the fiscal years that began between December 15, 1986 and June 30, 1996, and therefore the State has neither a transition asset or liability.

No pension liability exists for Teacher or APERS, as the State's contributions to each respective plan for the year ending June 30, 1998, was equal to the ARC.

Three-year trend information for the single-employer plans is as follows:

	Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation (Asset)
Judicial	6/30/98	\$ 3,183	143.42 %	\$(10,493)
	6/30/97	3,613	148.93 %	(10,040)
	6/30/96	4,367	97.53 %	(8,272)
State Police	6/30/98	\$ 6,632	108.75 %	\$ 5,466
	6/30/97	7,066	86.48 %	6,046
	6/30/96	7,390	78.67 %	5,091
Highway	6/30/98	\$13,976	100.00 %	N/A
	6/30/97	14,851	100.00 %	N/A
	6/30/96	14,336	100.00 %	N/A

NOTE 14: SEGMENT INFORMATION - ENTERPRISE FUND

Segment financial information for the State's enterprise funds is as follows (expressed in thousands):

Description	Workers' Compensation Commission	Revolving Loan Fund
Operating revenues	\$ 23,072	\$ 7,933
Depreciation and amortization	517	292
Operating income (loss)	(4,168)	1,337
Operating transfers in	-	-
Operating transfers out	115	-
Operating grants	-	-
Net income	2,135	1,337
Fixed asset additions	99	-
Net working capital	150,099	234,513
Total assets	165,366	238,238
Long-term liabilities payable from operating revenues	161,876	102,685
Retained deficit	(11,346)	(668)

NOTE 15: COMPONENT UNIT DISCLOSURES

The financial statements do not include the financial position or results of operations of foundations or other organizations affiliated with certain higher education institutions. Such organizations are separate nonprofit entities incorporated in the State. Their purpose is to assist affiliated higher education institutions in performing their work and services. Oversight of each organization is the responsibility of separate and independently elected boards of directors not otherwise affiliated with their respective higher education institutions. In carrying out their responsibilities, the boards of directors of the organizations employ management, form policy and maintain fiscal accountability over funds administered by their respective organizations.

Condensed financial statements of discretely presented component units at June 30, 1998, are as follows (expressed in thousands):

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
Balance Sheet			
Assets:			
Other Assets	\$ 243,872	\$ 1,655,372	\$ 1,899,244
Fixed Assets (net)	40	537	577
Total Assets	<u>\$ 243,912</u>	<u>\$ 1,655,909</u>	<u>\$ 1,899,821</u>
Liabilities:			
Payables to Primary Government/Component Units	\$ -	\$ 11,139	\$ 11,139
Other Liabilities	3,426	116,568	119,994
Special Obligation Bonds Payable	-	1,385,691	1,385,691
Revenue Bonds Payable	230,925	-	230,925
Total Liabilities	<u>234,351</u>	<u>1,513,398</u>	<u>1,747,749</u>
Fund Equity -			
Retained Earnings	9,561	142,511	152,072
Total Equity	<u>9,561</u>	<u>142,511</u>	<u>152,072</u>
Total Liabilities and Equity	<u>\$ 243,912</u>	<u>\$ 1,655,909</u>	<u>\$ 1,899,821</u>
Statement of Operations			
Operating Revenues	\$ 17,014	\$ 127,467	\$ 144,481
Operating Expenses	(14,159)	(104,834)	(118,993)
Depreciation & Amortization	(1,308)	(5,810)	(7,118)
Operating Income	1,547	16,823	18,370
Non-Operating Revenues			
Operating Grants	-	15,402	15,402
Net Income	1,547	32,225	33,772
Equity - Beginning of Year, as Adjusted	8,014	110,286	118,300
Equity - End of Year	<u>\$ 9,561</u>	<u>\$ 142,511</u>	<u>\$ 152,072</u>

The above discretely presented component units of the State do not issue classified balance sheets; therefore, information regarding current assets and current liabilities is unavailable.

NOTE 16: RISK MANAGEMENT PROGRAM

The following describes the risk management programs administered by the State. There have been no significant reductions in insurance coverage from the prior year.

Health and Life Plans

The State established the State Employees Insurance Advisory Committee (the "Committee") by Act 48 of 1972 and allowed the Committee to pursue self funding activities by Act 576 of 1975. The Committee provides comprehensive major medical care, prescription drug and life insurance (the "Plans") for employees of the State and its participating component units, as well as their dependents through the establishment of a variety of self-insured plans. The Committee also makes medical coverage available to retirees should they elect to continue such coverage at their own expense. The employee has the option of choosing among the various Plans. Coverage is funded by contributions from the State, participating component units and participating employees and retirees to the Plans. The Plans are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The Plans pay most expenses that are medically necessary and eligible for coverage based on usual, customary and reasonable allowances. Claims are subject to specified annual deductible and co-payment requirements. The Plans are also subject to varying lifetime benefit maximums.

The Committee also acts as an intermediary for the public school employees' health insurance as offered by the various school districts throughout the State. In this capacity, the Committee received premium payments which are not included in the accompanying financial statements amounting to approximately \$111 million during 1998. The Committee remits the premium payments to third party insurance companies who fully insure the public school employee group. The Committee provides prescription drug insurance to the public school employees and their dependents within the prescription drug plan offered to the employees of the State, its participating component units and their dependents. The Committee assumes risk of loss and is the predominant participant in the Plans. Premiums are funded through contributions from the school districts and the public school employees.

Basic term life insurance (death benefit) is provided to all State employees with varying amounts of coverage based on the classification of the employee. This basic coverage is provided at no cost to the employee and is funded by contributions from the State. Additional amounts of coverage are available to the employees, retirees and their dependents and the cost of such additional coverage is funded by employee contributions. The plan is administered by a third party who is responsible for processing of claims.

Claim liabilities for the Plans for the employees of the State and the prescription drug plan for the public school employees are based on actuarial estimates of the ultimate cost of claims that have been incurred (both reported and unreported) and are recorded in the general fund. An analysis of changes in aggregate liabilities for claims and claims adjustment expenses for the current and prior fiscal year are as follows (expressed in thousands):

	1998	1997
Claim liability, beginning of year	\$ 18,913	\$ 17,939
Incurred claims	130,229	121,962
Claims payments	(132,890)	(120,988)
Claim liability, end of year	<u>\$ 16,252</u>	<u>\$ 18,913</u>

The Plans have not purchased any annuity contracts on behalf of claimants.

Risk Management Office

The State established the Risk Management Office in accordance with State law for the purpose of analyzing and making recommendations as to cost effective loss control and safety programs for the various State agencies. Accordingly, State agencies retain the ultimate decision authority over whether to purchase commercial insurance coverage for property losses.

For those State buildings covered by commercial insurance, the building and contents are generally insured for the full amount of losses subject to varying deductible amounts up to \$25 thousand per occurrence. Losses arising from earthquakes are generally insured for the full amount of losses subject to a deductible of 5% of the building's value. Certain State agencies have chosen not to purchase commercial insurance on certain buildings, and as such, losses are recorded as expenditures in the General Fund when paid.

The State does not purchase liability insurance coverage for claims arising from third party losses on State property as the State has sovereign immunity against such claims. Claims against the State for such losses are heard before the State Claims Commission.

For those State vehicles covered by commercial insurance, the vehicle is generally insured for the full amount of losses subject to varying deductible amounts. Also, such commercial insurance generally provides coverage against liability losses up to \$100 thousand per occurrence in state and \$500 thousand per occurrence out of state. Certain State agencies have elected not to purchase commercial insurance for certain vehicles and losses on such vehicles are recorded as expenditures in the General Fund as paid. Liability losses arising from uninsured vehicles are heard and adjudicated by the State Claims Commission.

There have been no instances in the past three fiscal years wherein the amount of commercial insurance settlements have exceeded insurance coverage.

State Claims Commission

The State Claims Commission was established by State law to hear and adjudicate all claims against the State and its agencies and component units excluding those arising from workers' compensation law, employment security law and the acts of the various retirement plans. According to State law, only claims for actual damages are allowed. The Commission may authorize awards for actual damages up to \$7.5 thousand without further approval while amounts exceeding \$7.5 thousand must be approved by the State General Assembly. The claim liability is determined by review of pending claims and estimation of the ultimate cost to settle such claims and is recorded in the General Fund.

State Workers' Compensation Plans

The State's Workers' Compensation Program (the "Program") was created by State law to provide benefits to State employees injured on the job. All employees of the State and its component units are included in the Program. Prior to July 1, 1994, employees of state sponsored school districts in the State were also included in the plan, and the State continues to pay benefits to those employees injured prior to that date. An injury is covered under workers' compensation if it is caused by an accident that arose out of and in the course of employment. Losses payable by the Program include medical claims, loss of wages, disability and death benefits.

The Program is self-insured and is administered by the Public Employees Claims Division of the State Insurance Department. Each State agency is responsible for contributing to the Program each year an amount determined by the division based on past claims experience. The State's liability for claims at June 30, 1998, including claims incurred but not reported, is estimated to be approximately \$66 million and is recorded in the General Long-Term Debt Account Group as a component of claims and judgments payable.

The State also provides two forms of loss protection to employers and insurance companies operating in the State to minimize workers' compensation claims paid for wage losses. The first such plan was created by state law and is known as the Death & Permanent Total Disability Trust Fund ("Disability Trust Fund"). The Disability Trust Fund pays wage loss benefits in excess of \$75 thousand per case. The employer's primary

insurer is responsible for the first \$75 thousand per case. The Disability Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the State and by assessments on self-insured employers as if they were commercially insured. The liability of the Disability Trust Fund at June 30, 1998, is based on actuarial estimates of ultimate claim costs, for both reported and unreported claims, discounted at 5% and is recorded in the Workers' Compensation Commission Enterprise Fund.

The second such plan was created by State law and is known as the Second Injury Trust Fund. The Second Injury Trust Fund generally pays wage loss benefits for persons which experience a repeated injury of the same body part while employed by a different employer than that which he experienced the first injury. The purpose of the Second Injury Trust Fund is to encourage the employment of persons who have previously filed workers' compensation claims by protecting subsequent employers from wage loss claims arising from repeat injuries. The Second Injury Trust Fund is funded by taxes assessed on workers' compensation premiums earned by insurance companies operating in the state and by assessments on self-insured employers as if they were commercially insured. The claim liability is estimated by discounting at 5% the expected future claim payments of reported claims and is recorded in the Workers' Compensation Commission Enterprise Fund.

The Disability Trust Fund and the Second Injury Trust Fund are administered by the WCC. Changes in the combined balance of the Disability Trust Fund and Second Injury Trust Fund during the current fiscal year are as follows (expressed in thousands):

	1998	1997
Claim liability, beginning of year	\$ 152,179	\$ 112,478
Incurred Claims	15,715	47,149
Claim Payments	(8,159)	(7,448)
Claim liability, end of year	<u>\$ 159,735</u>	<u>\$ 152,179</u>

During fiscal 1997, the WCC completed a review of its actuarial assumptions used in calculating the Disability Trust Fund liability. As a result of this review, the interest rate used to calculate the liability was reduced from 6% to 5% and a more conservative mortality table was implemented. The effect of this change in estimate increased fiscal 1997 claims by approximately \$30 million.

Petroleum Storage Tank Trust Fund

The Petroleum Storage Tank Trust Fund ("Storage Tank Fund") was established according to State law to provide owners and operators of petroleum storage tanks in the State protection from losses associated with accidental releases from qualified storage tanks. In order for a storage tank to qualify under the Storage Tank Fund it must be registered with all fees paid and meet certain construction and spill protection and detection standards at the time of the release. The Storage Tank Fund will pay first party claims for corrective action up to \$1 million per occurrence with a \$25 thousand deductible as well as third party claims for damages up to \$1 million per occurrence with a \$25 thousand deductible. The Storage Tank Fund is funded by motor fuel taxes and fees paid by storage tank owners and operators. The first party claim liability is determined through the use of engineering estimates of the remaining corrective action for each site. The third party claim liability is estimated at the plan limits for each third party claim filed until actual damages are determined and the current portion of the liability is recorded in the General Fund while the long-term portion is recorded in the General Long-Term Debt Account Group.

Changes in the balance of the Storage Tank Fund claim liability during the current fiscal year are as follows (expressed in thousands):

	1998	1997
Claim liability, beginning of year	\$ 9,472	\$ 7,761
Incurred Claims	2,689	3,016
Claim Payments	(2,567)	(1,305)
Claim liability, end of year	<u>\$ 9,594</u>	<u>\$ 9,472</u>

Higher Education Health Plans

The University of Arkansas System ("University") and Arkansas State University ("ASU") sponsor self-funded health plans for employees and their eligible dependents. All five University campuses, all ASU campuses, state-wide operating units of the Arkansas Archeological Survey and Division of Agriculture, System Administration and the University Foundation participate in the health insurance programs which are administered by third parties who are responsible for the processing of claims and administration of cost containment.

The universities pay a portion of the total premium for full time active employees, while retirees and former employees participate on a fully contributory basis.

Changes in the balance of the University and ASU claim liability during the current fiscal year are as follows (expressed in thousands):

	1998	1997
Claim liability, beginning of year	\$ 6,063	\$ 8,871
Incurred Claims	42,957	33,938
Claim Payments	(40,378)	(36,746)
Claim liability, end of year	<u>\$ 8,642</u>	<u>\$ 6,063</u>

The universities purchase specific reinsurance to reduce their exposure on large claims. Under the specific arrangement, the reinsurance carrier pays for claims for covered individuals which exceed specified limits. Such limits are \$250 thousand and \$100 thousand for the University and ASU, respectively.

The plans have not purchased any annuity contracts on behalf of claimants.

NOTE 17: COMMITMENTS AND CONTINGENCIES

Primary Government -

Litigation - The State, its agencies and employees are defendants in numerous legal proceedings, many of which normally occur in governmental operations. Such litigation includes, but is not limited to, claims assessed against the State for property damage and personal injury, alleged inmate wrongs, other alleged torts, alleged breaches of contract, condemnation proceedings, challenges of state law and other alleged violations of state and federal laws. Certain claims have been adjudicated against the State, but remained unpaid by the State as of the balance sheet date. The State has accrued liabilities in the approximate amount of \$54 million for the payment of such claims. For other cases which it is reasonably possible that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General and other counsel estimate the liability to be approximately \$155 million.

The State is also involved in a federal school desegregation lawsuit. The State has accrued approximately \$3.4 million for the settlement of these suits.

UAMS was notified that it was the subject of a review being conducted by the United States Department of Health and Human Services Office of Inspector General ("OIG"), under its Physicians at Teaching Hospitals ("PATH") initiative. This program was initiated by the OIG with the intention of reviewing all teaching hospitals in the United States. The program is focused on Medicare billing procedures relative to teaching physicians. UAMS has had initial meetings with the OIG and furnished certain information requested. Elsewhere in the United States, the OIG has settled with teaching hospitals for amounts considerably in excess of \$1,000,000 and has found at least one teaching hospital to be without liability. In 1997 the OIG took steps to terminate certain ongoing audits and UAMS was advised that its audit was one selected for termination. However, a subsequent review of Medicare billings was commenced by the OIG. UAMS has recently been notified that this audit is being suspended by the OIG, however, to being reopened. UAMS management believes that its billing practices comply with all applicable laws and regulations and that the PATH initiative will not have a material effect on the financial position of UAMS.

It is not possible to predict with certainty or exactitude the ultimate outcome of all lawsuits pending or threatened against the State, including those discussed above. Based on the current status of all of these legal proceedings for which accruals have not been made in the State's financial statements, it is the opinion of management and the Attorney General that the proceedings will not have a material adverse impact on the State's financial position.

Federal Grants - The State, including its institutions of higher education, receives significant financial assistance from the U.S. Government in the form of grants and federal revenue sharing entitlements. Entitlement to those resources is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits under either the Federal Single Audit Act or by grantor agencies of the Federal Government or their designees. At June 30, 1998, the amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the State expects such amounts, if any, to be immaterial.

Loan Forgiveness - Under the provisions of the Pulaski County Desegregation Settlement Agreement, the State agreed to provide loans to the Little Rock School District ("LRSD"). If the composite test scores of the LRSD minority students reach a specified level before December 1, 2001, any outstanding loan balance will be forgiven. The standard by which the test scores will be measured has yet to be determined by the parties. As of June 30, 1998, the State's loan receivable is \$17 million and is recorded in the General Fund.

Construction and Other Commitments - At June 30, 1998, the State has commitments of approximately \$441 million for construction and other contracts. The Soil and Water Conservation Commission has approved \$53 million in loans for projects for water systems, waste water or pollution abatement that have not been disbursed at June 30, 1998. Teacher has also extended lines of credit in the amount of \$5 million to ADFA, of which approximately \$4.8 million was unused at June 30, 1998.

Bond Guarantees - The AEDC Bond Reserve Guaranty Fund is used to guarantee amortization on industrial development revenue bonds issued by counties and municipalities within the State of Arkansas. At June 30, 1998, total bonds guaranteed by the AEDC Bond Guaranty Reserve Fund were approximately \$42 million.

Claims Incurred but not Reported - The State has established a liability for both reported and unreported insured events, which includes estimates of future payments of claims and related claim adjustment expenses, based on the estimated ultimate cost of settling claims. In estimating its liability for incurred but unpaid claims, the State considers prior experience, industry information and currently recognized trends

affecting data specific to the State. Because actual claim costs depend upon such factors as duration of worker disability, medical cost trends, occupational disease and inflation, the process used in computing the ultimate cost of settling claims and expense for administering claims is necessarily based on estimates.

Compensated Absences - State employees earn vacation leave benefits on the basis of length of service time. Subject to certain restrictions, state employees are compensated for unused vacation time upon leaving the State's employment. Unused vacation time for employees of the governmental funds is accrued in the General Long-Term Debt Account Group.

Arbitrage Rebates - The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. ASLA has made a provision for revenues above the rebate limit which must be remitted to the Federal Government.

NOTE 18: THE YEAR 2000 ISSUE (UNAUDITED)

Primary Government -

The year 2000 issue arises because most computer software programs allocate two digits to the year date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features—such as environmental systems, elevators, and vehicles—as well as computer software programs. In addition, the year 2000 issue affects not only computer applications and equipment under the State's direct control but also the systems of the entities with which the State transacts business. Some the State's systems/equipment affected by the year 2000 issue are critical to the continued and uninterrupted operation of State government.

Because of the unprecedented nature of the year 2000 issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the State is or will be year 2000 ready, that the State's remediation efforts will be successful in whole or in part, or that parties with whom the State does business will be year 2000 ready.

At any given time, work to address the year 2000 issue with respect to each system deemed mission-critical (i.e., critical to conducting the State's operations) falls predominantly within one of the following stages of work:

- (i) *Awareness stage* - Establishing a budget and project plan for dealing with the year 2000 issue.
- (ii) *Assessment stage* - Identifying the systems and components for which year 2000 work is needed.
- (iii) *Remediation stage* - Making changes to systems/equipment.
- (iv) *Validation/testing stage* - Validating and testing changes that were made during the remediation stage.

The following paragraphs summarize year 2000 stage-of-work data for the State's mission-critical systems/equipment as of June 30, 1998.

The State of Arkansas began its year 2000 work in mid 1996 with inventory, assessment and project planning work related to its mission-critical systems. The awareness and assessment phases were completed in late 1996 resulting in estimates for resources and timing. While the Department of Information Services ("DIS") has assumed a leadership role in the year 2000 issue, many of the duties have been contracted to outside vendors.

The estimates derived from the awareness and assessment stages were used to gain an appropriation of \$10 million from the Arkansas General Assembly in March 1997. These funds are currently being used for remediation and testing and have not been fully expended.

In April 1998 planning began for an independent review of the readiness (validation) of State agencies for the year 2000 Phase I. The review of the largest agencies was completed in July of 1998. Of the 40 agencies reviewed in this Phase I, 34 agencies received results where no urgent action was required. Six agencies received results indicating attention was needed.

In most cases, the needs identified were for more detailed documentation or additional resources. Most of these needs have been either partially or completely met as of this report date. A follow-up review of the six agencies identified in Phase I will be conducted in December 1998.

Phase II of the review focused on smaller state agencies and was completed in November 1998. No agencies received unsatisfactory reviews.

An overall resource deficit of approximately \$15 million was identified from Phases I and II. Further refinement has indicated that the unidentified resources are closer to \$13.5 million. A supplemental appropriation will be requested in January 1999 to fund such projected deficits.

Details of the findings for any specific agency are available from the DIS, Year 2000 Program Office at 501-682-4976 or at One Capitol Mall, Little Rock, Arkansas. The findings will be maintained current, throughout 1999 with periodic reports from agencies. As needed, repeat reviews will be conducted.

Many of the State's most mission critical systems are maintained by DIS. As of the date of this report those systems are approximately 60% complete for year 2000 remediation and validation/testing. Specific details of individual applications may be obtained from the Year 2000 Program Office.

In June 1998, an independent review of the readiness (validation) of the publicly supported colleges and universities began. This review is expected to be complete in January 1999. As of the date of this report the publicly supported colleges and universities are approximately 60% complete for year 2000 remediation and validation/testing.

Because of the size and complexity of the year 2000 problem, certain failures can be expected. To mitigate this risk, DIS has issued a policy that no leave time will be authorized for employees from December 1, 1999 to January 31, 2000. This will ensure that maximum resources can be directed at residual problems. Also, contingency planning for unanticipated failures of mission-critical applications will be required. With these measures, it is expected that any residual failures can be repaired or workarounds can be utilized to prevent any adverse impact to State operation.

Component Units -

The provisions of GASB Technical Bulletin 98-1, *Disclosures about Year 2000 Issues*, is effective for all financial statements on which the auditors' report is dated after October 31, 1998. As both of the discretely presented component units are audited separately and as both individual audit opinions were dated prior to October 31, 1998, year 2000 information was not disclosed in the individual financial statements.

NOTE 19: SUBSEQUENT EVENTS

Primary Government -

Subsequent to June 30, 1998, the domestic and international capital markets have experienced significant volatility with respect to certain investments and, as a result, management believes that there has been significant fluctuations in the values of investments held by each of the funds.

On November 13, 1998, voters gave the Arkansas Soil & Water Conservation Commission the authority to issue up to \$300 million in additional general obligation bonds for the funding of various water and sewer projects within the State.

On November 20, 1998, the State, and forty-five other states, entered into a settlement with tobacco companies. The State's share of this settlement approximates \$1.6 billion, which will be received in incremental payments through 2025.

Component Units - On July 1, 1998, ADFA remarketed approximately \$47 million in Single Family Revenue Bonds (Series 1997-C, 1997-D, and 1997 D-B). In addition, ADFA issued approximately \$34.9 million in Single Family Revenue Bonds (Series 1998-A, 1998-B, and 1998-C) with interest rates ranging from 3.7% to 6.4% and final maturities from July 1, 2000 to July 1, 2030.

On August 13, 1998, ASLA expressed its intent to issue approximately \$40 million in variable rate Student Loan Revenue Refunding Bonds (Series 1998A-1), approximately \$5 million in variable rate Student Loan Revenue Refunding Bonds (Series 1998A-2) derived from the current refunding of maturing bonds of the Authority's Series 1992 Indenture of Trust, and approximately \$5 million of taxable Student Loan Revenue Refunding Bonds (Series 1998A-3).

* * * * *

Required Supplementary Information
Schedule of Funding Progress
(Expressed in Thousands)

Fiscal Year	Plan	Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded (Overfunded) Actuarial Accrued Liability (UAAL)	Funded Ratio	Covered Payroll	UAAL (Overfunded) as a Percentage of Covered Payroll
1998	Judicial	6/30/98	\$ 77,175	\$ 71,274	\$ (5,901)	108.3 %	\$ 13,084	(45.1)%
	State Police	6/30/98	182,997	204,098	21,101	89.7 %	19,817	106.5 %
	Highway	6/30/98	653,028	647,000	(6,028)	100.9 %	104,520	(5.8)%
1997	Judicial	6/30/97	\$ 63,285	\$ 65,657	\$ 2,372	96.4 %	\$ 12,422	19.1 %
	State Police	6/30/97	164,660	190,728	26,068	86.3 %	18,178	143.4 %
	Highway	6/30/97	580,316	605,100	24,784	95.9 %	112,266	22.1 %
1996	Judicial	6/30/96	\$ 51,478	\$ 63,452	\$11,974	81.1 %	\$ 11,714	102.2 %
	State Police	6/30/96	149,150	180,496	31,346	82.6 %	18,708	167.6 %
	Highway	6/30/96	526,400	550,900	24,500	95.6 %	107,600	22.8 %

Note that years previous to 1996 are not shown because such information is not available in accordance with the provisions of GASB 27.

Note to Required Supplementary Information

Actuarial Assumptions - The information presented in the required supplementary information was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

	<u>Judicial</u>	<u>State Police</u>	<u>Highway</u>
Actuarial valuation date	June 30, 1998	June 30, 1998	June 30, 1998
Actuarial cost method	Entry Age Normal	Entry Age Normal	Entry Age Normal
Amortization method	Level Percentage of Pay, Closed	Level Percentage of Pay, Closed	Level Percentage of Pay, Open
Remaining amortization period	N/A**	24 years	N/A
Asset valuation method	4 Year Smoothed Market	4 Year Smoothed Market	5 Year Smoothed Market
Actuarial assumptions:			
Inflation rate	5.00 %	4.75 %	4.50 %
Investment rate of return*	7.50 %	7.75 %	8.00 %
Projected salary increases*	5 to 7.2%	5.75 to 9.55%	5 to 11%
Post retirement benefit increases	3.00 %	3.00 %	3.00 %

*Includes assumed inflation.

**The Judicial Board of Trustees has elected to segregate excess funding amounts in a contingency reserve and to exclude these amounts in the determination of employer contribution rates. Therefore, amortization of the net pension asset of approximately \$10.5 million is not reflected in the computation of the annual required contribution.

Financial Section – Combining Financial Statements & Schedules



Education in Arkansas takes place throughout the state from preschool to college, and learning does not end there. AETN, for instance, provides school children and home learners with instructional programming both before and after school, featuring key subjects areas such as geography, social studies, math and science. **BILL NYE THE SCIENCE GUY** is one of many popular learning programs available.





Enterprise Funds



As a public service, AETN is proud to present Arkansians with opportunities to question leaders, share important issues with the ARKANSIANS ASK series, obtain analysis of state events with ARKANSIANS WEEK, enjoy the natural state with ARKANSAS OUTDOORS and other information-oriented programs. Providing Arkansians with information they can use is a proud part of AETN's continuing mission.



ENTERPRISE FUNDS

The enterprise funds are used to account for operations of those state agencies and/or programs providing goods or services to the general public or a user-charge basis or where the State has decided that periodic determination of revenues earned, expenses incurred and/or income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The enterprise funds consist of the following:

Workers' Compensation Commission - This agency is responsible for providing a prompt and equitable system of compensation for injury or illness sustained during the course of employment.

Revolving Loan Fund Program - This program is responsible for providing a perpetual fund for financing the construction of waste water treatment facilities for municipalities and other public entities.

Enterprise Funds

Combining Balance Sheet

June 30, 1998

(Expressed in Thousands)

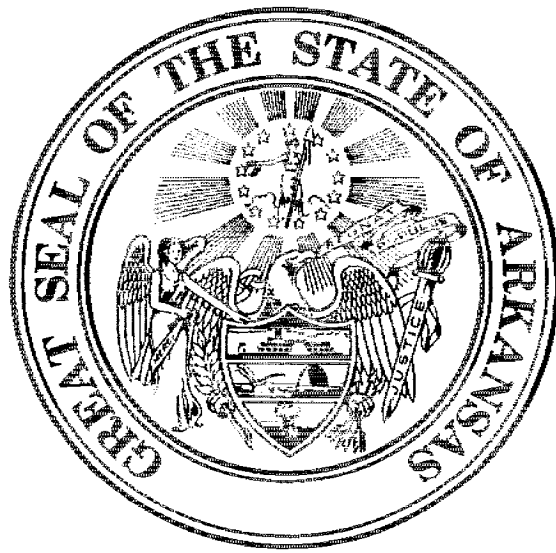
	Workers' Compensation Commission	Revolving Loan Fund	Total
ASSETS:			
Cash and cash equivalents	\$137,887	\$ 30,181	\$168,068
Investments		14,840	14,840
Receivables, net:			
Accounts	10,705		10,705
Loans		168,709	168,709
Investment related	1,850	564	2,414
Due from other governments		20,727	20,727
Fixed assets, net	2,715		2,715
Other assets	12,209	3,217	15,426
TOTAL ASSETS	\$165,366	\$238,238	\$403,604
LIABILITIES, EQUITY AND OTHER CREDITS:			
Liabilities:			
Accounts payable	\$ 343	\$ 508	\$ 851
Accrued and other liabilities	14,493	482	14,975
Deferred revenues		20,727	20,727
Workers' compensation benefits payable	159,735		159,735
Capital leases	2,141		2,141
Special obligation bonds payable		102,685	102,685
Total liabilities	176,712	124,402	301,114
Equity and other credits:			
Retained deficit unreserved	(11,346)	(668)	(12,014)
Contributed capital		114,504	114,504
Total equity (deficit) and other credits	(11,346)	113,836	102,490
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	\$165,366	\$238,238	\$403,604

Enterprise Funds**Combining Statement of Revenues, Expenses and Changes in Retained Earnings****For the Fiscal Year Ended June 30, 1998****(Expressed in Thousands)**

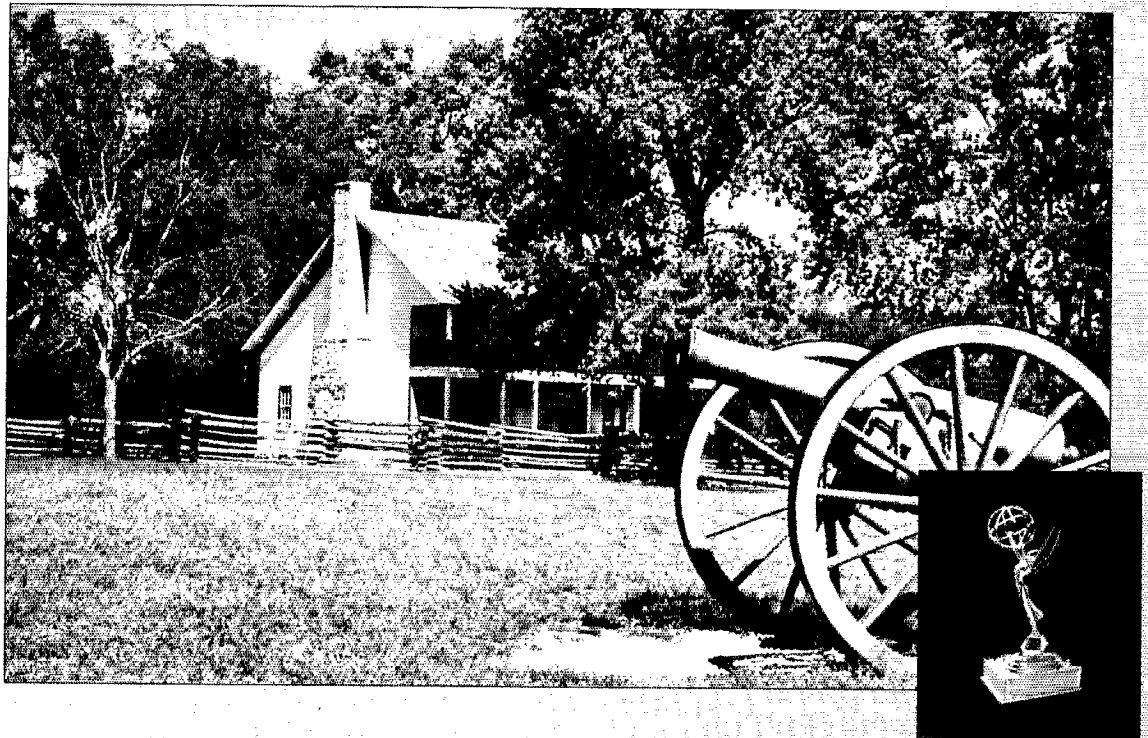
	Workers' Compensation Commission	Revolving Loan Fund	Total
OPERATING REVENUES:			
Licenses, permits and fees	\$ 8,547		\$ 8,547
Investment earnings		\$ 7,876	7,876
Insurance tax	14,057		14,057
Other	468	57	525
Total Operating Revenues	23,072	7,933	31,005
OPERATING EXPENSES:			
General and administrative	26,723	877	27,600
Interest		5,427	5,427
Depreciation	517		517
Amortization		292	292
Total Operating Expenses	27,240	6,596	33,836
Operating Income (Loss)	(4,168)	1,337	(2,831)
NON-OPERATING REVENUES (EXPENSES):			
Investment earnings	6,557		6,557
Interest	(139)		(139)
Total Non-Operating Revenue	6,418		6,418
Income Before Operating Transfers	2,250	1,337	3,587
OPERATING TRANSFERS -			
Operating transfers out - primary government	(115)		(115)
NET INCOME	2,135	1,337	3,472
RETAINED DEFICIT AT BEGINNING OF YEAR, AS ADJUSTED	(13,481)	(2,005)	(15,486)
RETAINED DEFICIT AT END OF YEAR	\$ (11,346)	\$ (668)	\$ (12,014)

Enterprise Funds
Combining Statement of Cash Flows
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Workers' Compensation Commission	Revolving Loan Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income (loss)	\$ (4,168)	\$ 1,337	\$ (2,831)
Adjustments to reconcile operating income (loss) to cash provided by operating activities:			
Depreciation, accretion and amortization	517	292	809
Changes in operating assets and liabilities:			
Accounts receivable	(1,197)		(1,197)
Investment related receivable	(250)	193	(57)
Other assets	1		1
Accounts payable and accrued expenses	(74)	(451)	(525)
Workers' compensation benefits payable	7,557		7,557
Other liabilities	1,660		1,660
Net Cash Provided by Operating Activities	<u>4,046</u>	<u>1,371</u>	<u>5,417</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Operating transfers out to other funds	(115)		(115)
Repayment of bonds		(2,495)	(2,495)
Interest expense	(139)		(139)
Proceeds from grants, entitlements and shared revenues		8,472	8,472
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(254)</u>	<u>5,977</u>	<u>5,723</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Capital lease obligation	(349)		(349)
Acquisition of capital assets	<u>(100)</u>		<u>(100)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(449)</u>		<u>(449)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from sales and maturities of investments		5,848	5,848
Investment earnings	6,558		6,558
Loan disbursements		(15,059)	(15,059)
Principal collected on loans		5,998	5,998
Net Cash Provided (Used) by Investing Activities	<u>6,558</u>	<u>(3,213)</u>	<u>3,345</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	9,901	4,135	14,036
CASH AND CASH EQUIVALENTS:			
Beginning of year	<u>127,986</u>	<u>26,046</u>	<u>154,032</u>
End of year	<u>\$137,887</u>	<u>\$ 30,181</u>	<u>\$168,068</u>
SUPPLEMENTAL INFORMATION:			
Cash paid for interest	\$ 139		\$ 139
Federal capitalization grants approved		\$ 4,076	4,076
Underwriters' discounts on bonds		99	99
Sales discount on bonds		127	127
Other cost of issuance of bonds		26	26



Trust & Agency Funds



Programs for and about Arkansians help illuminate the culture and heritage of the state. Provided in cooperation with the Arkansas Department of Parks and Tourism, AETN's EDGE OF COINCIDENCE examined the role Arkansians played during the Civil War. The Emmy award-winning documentary was provided to Arkansians classrooms across the state as a teaching tool for Arkansas history. This is another example of partnership designed to serve every citizen of the natural state.



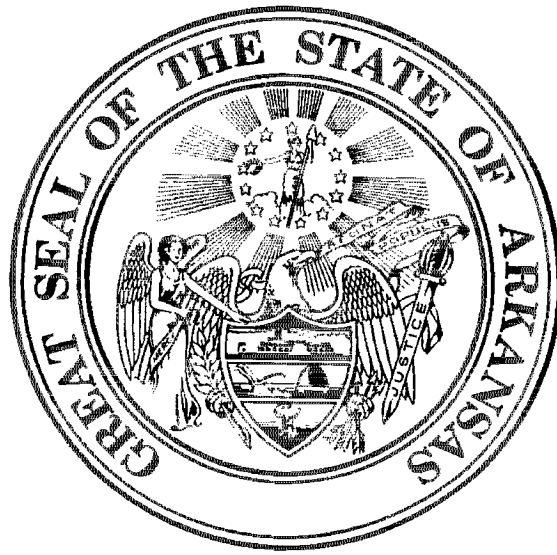
TRUST AND AGENCY FUNDS

Trust and agency funds are used to account for assets held by the State in a fiduciary capacity or as an agent for individuals, private organizations, or other governments and/or funds. The trust and agency funds consist of the following:

Expendable Trust Fund - This fund is accounted for in essentially the same manner as governmental funds and is administered by the Arkansas Employment Security Department to eligible unemployed workers.

Pension Trust Funds - These funds are accounted for in essentially the same manner as proprietary funds, and includes Judicial, Teacher, State Police, Highway and APERS retirement plans.

Agency Funds - These funds are custodial in nature and do not involve measurement of operations. Included in these funds are assets held by the Insurance Department and various other state agencies.



Trust and Agency Funds Combining Balance Sheet

June 30, 1998

(Expressed in Thousands)

	Expendable Trust	Pension Trust		
	Employment Security Division	Judicial	Teacher	State Police
ASSETS:				
Cash and cash equivalents	\$223,111	\$ 3,331	\$ 773,053	\$ 33,339
Investments		86,008	6,956,077	230,986
Receivables, net:				
Accounts	48,117		10	
Employer		165	4,469	171
Employee			4,796	
Investment related		617	85,106	1,534
Due from other governments	6,408			
Advances to other funds - primary government			23,911	
Advances to component units			239	
Fixed assets, net			632	
Other assets			1	
TOTAL ASSETS	\$277,636	\$90,121	\$7,848,294	\$266,030
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts payable		\$ 32	\$ 221	
Accrued and other liabilities	\$ 42,142		1,192,514	\$ 70,748
Due to other governments				
Agency liabilities				
Total Liabilities	42,142	32	1,192,735	70,748
Fund balance:				
Reserved for unemployment compensation	235,494			
Reserved for employee pension benefits		90,089	6,655,559	195,282
Total Fund Balance	235,494	90,089	6,655,559	195,282
TOTAL LIABILITIES AND FUND BALANCE	\$277,636	\$90,121	\$7,848,294	\$266,030

Agency Funds				
Highway	APERS	Insurance Department	Other Agencies	Total
\$ 8.819	\$ 269,541	\$ 25,902	\$49,417	\$ 1,386,513
737.993	3,921,898	412,085	575	12,345,622
				48,127
4.625	3,301			12,731
75				4,871
7.518	42,882	19		137,676
			67	6,475
				23,911
				239
	152			784
	4			5
<u>\$759.030</u>	<u>\$4,237.778</u>	<u>\$438.006</u>	<u>\$50.059</u>	<u>\$13,966.954</u>
				\$ 253
\$ 58	\$ 612,140			1,917,602
		\$438.006	\$ 59	59
			50,000	488,006
<u>58</u>	<u>612,140</u>	<u>438,006</u>	<u>50,059</u>	<u>2,405,920</u>
				235,494
<u>758.972</u>	<u>3,625.638</u>			<u>11,325.540</u>
<u>758.972</u>	<u>3,625.638</u>			<u>11,561.034</u>
<u>\$759.030</u>	<u>\$4,237.778</u>	<u>\$438.006</u>	<u>\$50.059</u>	<u>\$13,966.954</u>

Pension Trust Funds **Combining Statement of Changes in Plan Net Assets Held in Trust for** **Pension Benefits**

For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Judicial	Teacher	State Police	Highway	APERS	Total
ADDITIONS:						
Contributions:						
Employer	\$ 4,565	\$ 158,963	\$ 7,212	\$ 13,976	\$ 87,529	\$ 272,245
Employee	643	48,329		6,635	490	56,097
Total Contributions	5,208	207,292	7,212	20,611	88,019	328,342
Investment income:						
Net appreciation in fair value of investments	13,557	730,350	16,040	112,953	371,730	1,244,630
Interest	2,450	148,273	5,435	26,448	96,266	278,872
Dividends	298	56,313	1,875	1,393	22,160	82,039
Real estate operating income (loss)		2,326			(726)	1,600
Other		63,306	3,575	595	42,300	109,776
Less investment expense	(227)	(76,676)	(4,291)	(1,443)	(51,393)	(134,030)
Net Investment Income	16,078	923,892	22,634	139,946	480,337	1,582,887
Other additions - Miscellaneous revenues	39	379	69		6,964	7,451
TOTAL ADDITIONS	21,325	1,131,563	29,915	160,557	575,320	1,918,680
DELETIONS:						
Annuity benefits	3,014	215,574	7,284	26,523	91,204	343,599
Refunds of employee contributions	34	3,512		1,136	133	4,815
Administrative expenses	40	4,375	51		3,209	7,675
Other deletions		30	7	2,985		3,022
TOTAL DELETIONS	3,088	223,491	7,342	30,644	94,546	359,111
NET INCREASE	18,237	908,072	22,573	129,913	480,774	1,559,569
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT BEGINNING OF YEAR	71,852	5,747,487	172,709	629,059	3,144,864	9,765,971
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS AT END OF YEAR	\$90,089	\$6,655,559	\$195,282	\$758,972	\$3,625,638	\$11,325,540

Pension Trust Funds **Statement of Net Plan Assets**

June 30, 1998

(Expressed in Thousands)

	<u>Judicial</u>	<u>Teacher</u>	<u>State Police</u>	<u>Highway</u>	<u>APERS</u>
ASSETS					
Cash and cash equivalents	\$ 3,331	\$ 773,053	\$ 33,339	\$ 8,819	\$ 269,541
Investments	86,008	6,956,077	230,986	737,993	3,921,898
Receivables, net:					
Accounts		10			
Employer	165	4,469	171	4,625	3,301
Employee		4,796		75	
Investment related	617	85,106	1,534	7,518	42,882
Advances to other funds - primary government		23,911			
Advances to component units		239			
Fixed assets, net		632			152
Other assets		1			4
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$90,121</u>	<u>\$7,848,294</u>	<u>\$266,030</u>	<u>\$759,030</u>	<u>\$4,237,778</u>
LIABILITIES					
Accounts payable	\$ 32	\$ 221			
Accrued and other liabilities		1,192,514	\$ 70,748	\$ 58	\$ 612,140
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>32</u>	<u>1,192,735</u>	<u>70,748</u>	<u>58</u>	<u>612,140</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
	<u>\$ 90,089</u>	<u>\$ 6,655,559</u>	<u>\$ 195,282</u>	<u>\$ 758,972</u>	<u>\$ 3,625,638</u>

Agency Funds

Combining Statement of Changes in Assets and Liabilities

For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Balance June 30, 1997	Additions	Deductions	Balance June 30, 1998
INSURANCE DEPARTMENT:				
Assets:				
Cash and cash equivalents	\$ 27,597	\$ 1,063	\$ 2,758	\$ 25,902
Investments	391,749	23,088	2,752	412,085
Investment related receivables		19		19
TOTAL	<u>\$419,346</u>	<u>\$ 24,170</u>	<u>\$ 5,510</u>	<u>\$438,006</u>
Liabilities - Agency liabilities	<u>\$419,346</u>	<u>\$ 24,170</u>	<u>\$ 5,510</u>	<u>\$438,006</u>
OTHER AGENCIES:				
Assets:				
Cash and cash equivalents	\$ 24,083	\$2,354,623	\$2,329,289	\$ 49,417
Investments	1,427	2	854	575
Due from other governments	93	1,035	1,061	67
TOTAL	<u>\$ 25,603</u>	<u>\$2,355,660</u>	<u>\$2,331,204</u>	<u>\$ 50,059</u>
Liabilities:				
Due to other governments	\$ 22	\$ 585	\$ 548	\$ 59
Agency liabilities	25,581	2,355,075	2,330,656	50,000
TOTAL	<u>\$ 25,603</u>	<u>\$2,355,660</u>	<u>\$2,331,204</u>	<u>\$ 50,059</u>

Higher Education Fund



Arkansas agencies like the Arkansas Department of Higher Education, the Arkansas Department of Education, the Arkansas Department of Information Services and the Arkansas Game and Fish Commission members of the commission are shown above on the popular **OUTDOOR HOTLINE** series partner with AETN to educate Arkansians on topics of interest and importance to them. Whether lecturing in a college classroom or appearing on an outdoor-related call-in program, these partners truly believe Arkansas must be a place "where learning never ends."



Higher Education Fund

State Board of Higher Education - The State Board of Higher Education is empowered with the duty to determine, control, supervise and manage the financial, business and educational policies and affairs of the state institutions of Higher Education under its jurisdiction. These institutions are as follows:

State Colleges and Universities:

Four Year:

- University of Arkansas System
 - Regional Campuses of University of Arkansas:
 - University of Arkansas at Fayetteville
 - University of Arkansas at Little Rock
 - University of Arkansas at Monticello
 - University of Arkansas at Pine Bluff
 - Specialized Institutions:
 - University of Arkansas School of Law
 - University of Arkansas for Medical Sciences
- Arkansas State University
- Arkansas Tech University
- Henderson State University
- Southern Arkansas University
- University of Central Arkansas

Community Colleges:

- East Arkansas Community College
- Garland County Community College
- Mississippi County Community College
- North Arkansas College
- Northwest Arkansas Community College
- Phillips Community College of the U of A
- Rich Mountain Community College
- Westark College
- South Arkansas Community College

Two Year Branches:

- Southern Arkansas University - Tech
- Arkansas State University - Beebe
- Arkansas State University - Mountain Home
- Black River Technical College
- Cossatot Technical College
- Ozarka Technical College
- Petit Jean College
- Ouachita Technical College
- University of Arkansas Community College at Hope
- Mid-South Community College
- Southeast Arkansas College
- Pulaski Technical College
- University of Arkansas Community College at Batesville



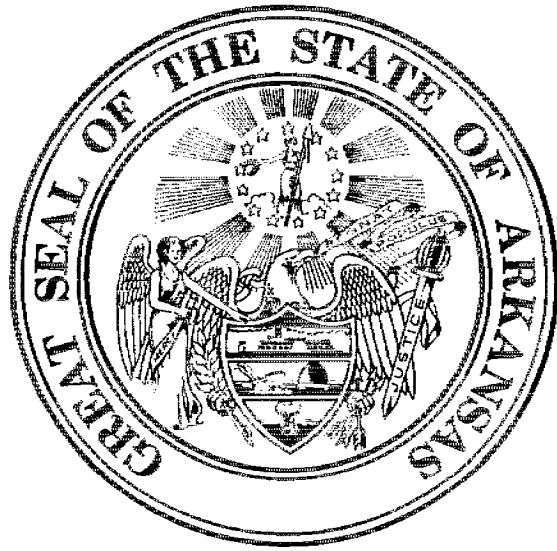
Higher Education Fund Combining Balance Sheet

June 30, 1998

(Expressed in Thousands)

	Current Funds			Endowment and Similar
	Unrestricted	Restricted	Loan	
ASSETS:				
Cash and cash equivalents	\$116,776	\$10,622	\$ 2,206	\$ 4,154
Investments	66,131	16,078	3,205	106,564
Receivables, net:				
Accounts	98,958	19,079	8,169	4
Notes and deposits	622	14	34,546	
Investment related	101	1	446	67
Due from other funds - primary government	5,213			
Due from other funds - higher education	5,609	76	117	
Inventories	14,288	38		
Fixed assets, net				766
Other assets	10,798	165	55	
Total assets	<u>\$318,496</u>	<u>\$46,073</u>	<u>\$48,744</u>	<u>\$111,555</u>
LIABILITIES, EQUITY AND OTHER CREDITS:				
Liabilities:				
Accounts payable	\$ 47,046	\$ 3,177	\$ 25	
Accrued and other liabilities	60,929	2,245	261	\$ 603
Deferred revenues	9,642	674		
Due to other funds - primary government	569			
Due to other funds - higher education	5,221	3,863	1	117
Advances from other funds				
Notes payable				
Revenue bonds				
Capital leases				
Total Liabilities	<u>123,407</u>	<u>9,959</u>	<u>287</u>	<u>720</u>
Equity and other credits:				
Net investment in fixed assets				
Fund balance:				
Reserved for:				
General		36,114		
Student loans			45,076	
Endowment				110,835
Renewals and replacements				
Retirement of indebtedness				
Unreserved	195,089		3,381	
Total Equity and Other Credits	<u>195,089</u>	<u>36,114</u>	<u>48,457</u>	<u>110,835</u>
TOTAL LIABILITIES, EQUITY AND OTHER CREDITS	<u>\$318,496</u>	<u>\$46,073</u>	<u>\$48,744</u>	<u>\$111,555</u>

Plant Funds	Agency Fund	Total
\$ 194,367	\$ 3,450	\$ 331,575
107,841	179,752	479,571
3,906	38	130,154
5,002		40,184
284		899
		5,213
5,380	128	11,310
		14,326
1,897,963		1,898,729
6,388		17,406
<u>\$2,221,131</u>	<u>\$183,368</u>	<u>\$2,929,367</u>
\$ 9,752	\$ 742	\$ 60,742
12,199	182,625	258,862
		10,316
		569
2,107	1	11,310
17,082		17,082
14,152		14,152
346,573		346,573
5,475		5,475
<u>407,340</u>	<u>183,368</u>	<u>725,081</u>
1,562,827		1,562,827
150,197		186,311
		45,076
		110,835
21,262		21,262
24,475		24,475
55,030		253,500
<u>1,813,791</u>	<u></u>	<u>2,204,286</u>
<u>\$2,221,131</u>	<u>\$183,368</u>	<u>\$2,929,367</u>



General Fixed Assets Account Group



AETN provides native Arkansians with some of the finest television programming available from a "front-row" seat for THE THREE TENORS, NOVA, THE AMERICAN EXPERIENCE, NATURE and THE NEWSHOUR WITH JIM LEHRER. All this is achieved through a unique partnership among AETN, the State of Arkansas and thousands of Arkansians who voluntarily help support the network through their contributions.



GENERAL FIXED ASSETS ACCOUNT GROUP

The General Fixed Assets Account Group is maintained to account for fixed assets acquired or constructed for use by the State for general governmental purposes. These include all fixed assets except those accounted for in the Proprietary, Fiduciary and Higher Education Funds and Component Units.

Schedule of General Fixed Assets by Source

June 30, 1998 (Expressed in Thousands)

General Fixed Assets:

Land	\$ 167,066
Buildings	606,878
Equipment	207,412
Construction in progress	46,545
Total General Fixed Assets	<u>\$1,027,901</u>

Investment in General Fixed Assets by Source -
General fund

\$1,027,901

Total Investment in General Fixed Assets

\$1,027,901

Schedule of General Fixed Assets by Function and Activity

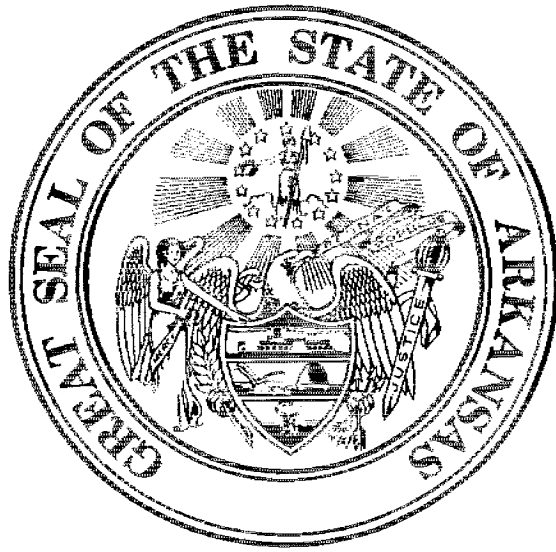
June 30, 1998 (Expressed in Thousands)

Function and Activity	Land	Buildings	Equipment	Construction in Progress	Total
Education	\$ 960	\$ 40,796	\$ 15,061		\$ 56,817
Health and human resources	4,225	136,568	16,632	\$ 824	158,249
Transportation	875	53,052	78,563		132,490
Law, justice and public safety	31,901	244,866	46,944	33,104	356,815
Recreation and resource development	120,063	54,383	14,114	10,303	198,863
General government	8,797	67,851	28,107	2,294	107,049
Regulation of business and professionals	245	9,362	7,991	20	17,618
Total	<u>\$167,066</u>	<u>\$606,878</u>	<u>\$207,412</u>	<u>\$46,545</u>	<u>\$1,027,901</u>

Schedule of Changes in General Fixed Assets by Function and Activity

For the Fiscal Year Ended June 30, 1998 (Expressed in Thousands)

Function and Activity	Balance June 30, 1997 As Adjusted	Additions	Deletions	Balance June 30, 1998
Education	\$ 53,452	\$ 3,444	\$ 79	\$ 56,817
Health and human resources	152,280	9,957	3,988	158,249
Transportation	126,690	8,434	2,634	132,490
Law, justice and public safety	308,963	55,460	7,608	356,815
Recreation and resource development	184,471	16,111	1,719	198,863
General government	100,653	9,679	3,283	107,049
Regulation of business and professionals	18,310	4,078	4,770	17,618
Total	<u>\$944,819</u>	<u>\$107,163</u>	<u>\$24,081</u>	<u>\$1,027,901</u>



General Long-Term Debt Account Group



Education for preschool-age children is vital to Arkansas' future and is a priority for State leadership in government, education, business and home. AETN is proud to partner in the effort by providing 27 hours of preschool programming each week to help prepare children for school. **MISTER ROGERS' NEIGHBORHOOD, SESAME STREET, TELETUBBIES** and **ARTHUR** teach children valuable lessons using storytelling, group and individual activities. These programs and training partnerships with agencies like Early Childhood Education are all a part of AETN's Ready To Learn service.



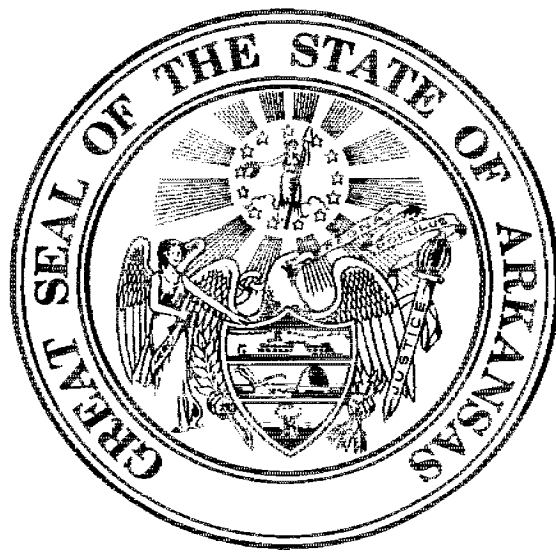
GENERAL LONG-TERM DEBT ACCOUNT GROUP

The General Long-Term Debt Account Group is maintained to account for the outstanding principal balances of the State's general obligation bonds, special obligation bonds, notes payable to component units, other debt instruments, capital leases, capital leases with component units, claims and judgments payable in future years, accrued compensated absences and unfunded pension costs.

Schedule of Changes in General Long-Term Debt

For The Year Ended June 30, 1998 (Expressed in Thousands)

	Balance June 30, 1997	Debt Issued	Debt Paid	Other Changes	Balance June 30, 1998
General obligation bonds	\$299,101	\$110,624	\$(18,979)	\$ 9,656	\$400,402
Special obligation bonds	10,720		(4,925)		5,795
Other debt instruments	8,623		(876)		7,747
Notes payable to component unit		53,105	(1,110)		51,995
Capital leases	40,217	73	(12,560)		27,730
Capital leases with component unit	87,125		(6,388)		80,737
Claims and judgments	98,476			43,752	142,228
Compensated absences	69,831			(7,965)	61,866
Unfunded pension costs	6,046			(580)	5,466
Total	<u>\$620,139</u>	<u>\$163,802</u>	<u>\$(44,838)</u>	<u>\$44,863</u>	<u>\$783,966</u>



Discretely Presented Component Units



AETN provides over 2,500 individual instructional programs for kindergarten through 12th grade classroom use. ART ALIVE is an example of a series helping students in middle and junior high schools better understand, appreciate and participate in the arts. AETN has consistently used its telecommunications capabilities to help educate children and to enhance the teaching and learning environment in classrooms. AETN is proud to collaborate with the Arkansas Departments of General Education, Vocational Education and Higher Education, Arkansas' regional educational cooperatives and other educational providers in making educational services available to all Arkansans.



DISCRETELY PRESENTED COMPONENT UNITS

Component Units are those entities which are legally separate government organizations for which the State's elected officials are financially accountable, or other organizations for which the nature and significance of their relationship with the State are such that exclusion would cause the State's financial statements to be misleading. Discretely Presented Component Units consist of the following:

Arkansas Student Loan Authority - ASLA provides guaranteed educational loans to Arkansas students attending eligible post secondary institutions, and serves as a secondary market and liquidity provider to Arkansas lending institutions which originate guaranteed student loans.

Arkansas Development Finance Authority - ADFA provides financing through the issuance of taxable and tax-exempt bonds for housing, industry, local governments, education, agricultural enterprise, health care, infrastructure projects, jails and prisons. ADFA also offers direct loans for housing, small minority businesses, agriculture and exporting.

Discretely Presented Component Units Combining Balance Sheet

June 30, 1998

(Expressed in Thousands)

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
ASSETS:			
Cash and cash equivalents	\$ 48	\$ 217,652	\$ 217,700
Investments	59,247	807,048	866,295
Receivables, net:			
Accounts		20,992	20,992
Loans	177,426	501,203	678,629
Investment related	2,810	6,264	9,074
Fixed assets, net	40	537	577
Other assets	4,341	102,213	106,554
TOTAL ASSETS	\$ 243,912	\$ 1,655,909	\$ 1,899,821
LIABILITIES AND RETAINED EARNINGS:			
Liabilities:			
Accounts payable	\$ 3,426	\$ 60,375	\$ 63,801
Accrued and other liabilities		56,193	56,193
Due to primary government		10,900	10,900
Advances from primary government		239	239
Revenue bonds payable	230,925		230,925
Special obligation bonds payable		1,385,691	1,385,691
Total Liabilities	234,351	1,513,398	1,747,749
Retained earnings:			
Unreserved	9,561	33,212	42,773
Reserved for bond programs		109,299	109,299
Total Retained Earnings	9,561	142,511	152,072
TOTAL LIABILITIES AND RETAINED EARNINGS	\$ 243,912	\$ 1,655,909	\$ 1,899,821

Discretely Presented Component Units
Combining Statement of Revenues, Expenses and Changes in Retained Earnings
For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

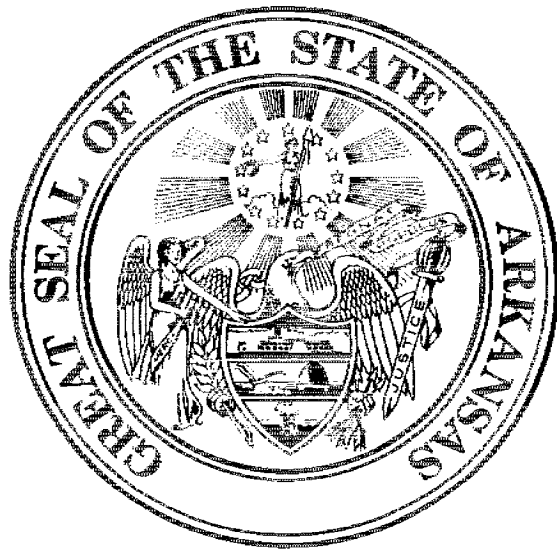
	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
OPERATING REVENUES:			
Investment earnings	\$ 16,161	\$ 126,454	\$ 142,615
Other	853	1,013	1,866
Total Operating Revenues	<u>17,014</u>	<u>127,467</u>	<u>144,481</u>
OPERATING EXPENSES:			
General and administration	3,496	14,851	18,347
Interest	10,918	95,793	106,711
Other	1,053		1,053
Total Operating Expenses	<u>15,467</u>	<u>110,644</u>	<u>126,111</u>
Operating Income	<u>1,547</u>	<u>16,823</u>	<u>18,370</u>
NON-OPERATING REVENUE -			
Grants, entitlements and shared revenues		15,402	15,402
Total Non-operating Revenue		<u>15,402</u>	<u>15,402</u>
NET INCOME	<u>1,547</u>	<u>32,225</u>	<u>33,772</u>
RETAINED EARNINGS AT BEGINNING OF YEAR, AS ADJUSTED	<u>8,014</u>	<u>110,286</u>	<u>118,300</u>
RETAINED EARNINGS AT END OF YEAR	<u>\$ 9,561</u>	<u>\$ 142,511</u>	<u>\$ 152,072</u>

Discretely Presented Component Units

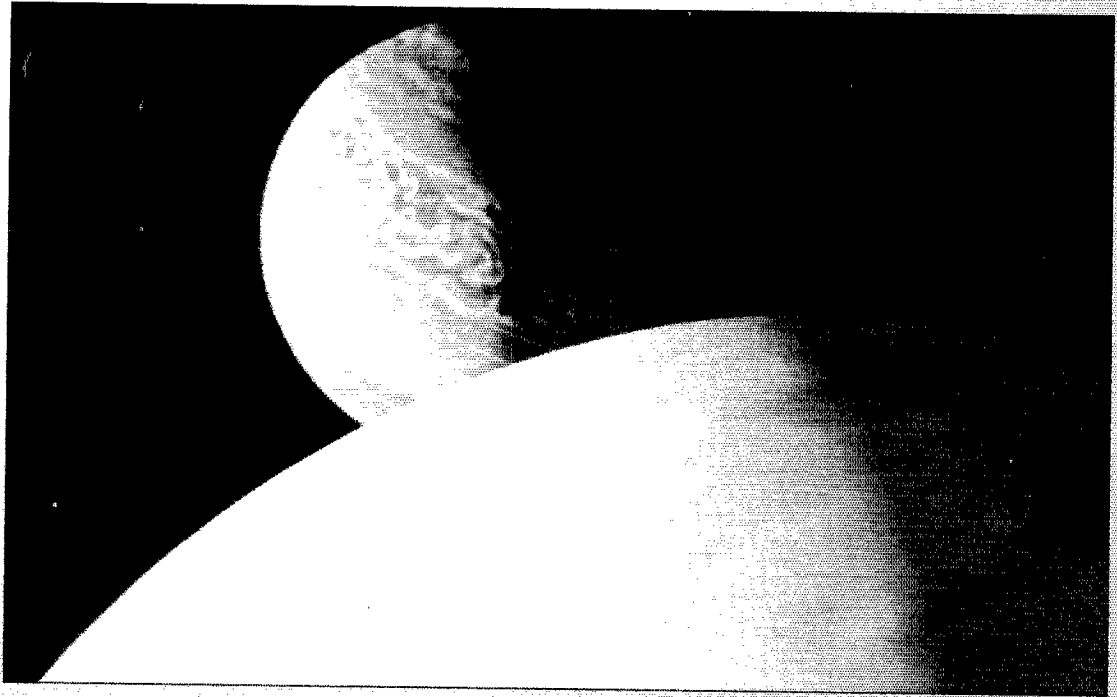
Combining Statement of Cash Flows

For the Fiscal Year Ended June 30, 1998
(Expressed in Thousands)

	Arkansas Student Loan Authority	Arkansas Development Finance Authority	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Operating income	\$ 1,547	\$ 16,823	\$ 18,370
Adjustments to reconcile operating income to cash provided (used) by operating activities:			
Depreciation, accretion and amortization, net	560	(4,361)	(3,801)
Provision for arbitrage rebate	982		982
Net appreciation on investments		(14,632)	(14,632)
Provision for loan loss		(108)	(108)
Changes in operating assets and liabilities:			
Accounts receivable		(1,272)	(1,272)
Loans receivable	(38,470)	19,159	(19,311)
Investment related receivable	(405)	3,983	3,578
Other assets	(343)	(480)	(823)
Accounts payable and accrued expenses	91	16,632	16,723
Other liabilities		4,597	4,597
Net Cash (Used) Provided by Operating Activities	<u>(36,038)</u>	<u>40,341</u>	<u>4,303</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:			
Proceeds from issuance of bonds	48,550	348,131	396,681
Repayment of bonds	(13,190)	(222,852)	(236,042)
Payment of notes payable	(8,550)		(8,550)
Payment of debt issuance costs	(587)	(5,554)	(6,141)
Collection of financing fees		4,572	4,572
Proceeds from grants, entitlements and shared revenues		15,402	15,402
Net Cash Provided by Non-capital Financing Activities	<u>26,223</u>	<u>139,699</u>	<u>165,922</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES -			
Capital expenditures	<u>(21)</u>		<u>(21)</u>
Net Cash Used for Capital and Related Financing Activities	<u>(21)</u>		<u>(21)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of investments		(737,399)	(737,399)
Proceeds from sales and maturities of investments	(64,201)	688,062	623,861
Investment in direct financing leases	73,983		73,983
Lease payments received		3,355	3,355
Net Cash Provided (Used) by Investing Activities	<u>9,782</u>	<u>(45,982)</u>	<u>(36,200)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(54)</u>	<u>134,058</u>	<u>134,004</u>
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>102</u>	<u>83,594</u>	<u>83,696</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 48</u>	<u>\$ 217,652</u>	<u>\$ 217,700</u>
SUPPLEMENTAL INFORMATION -			
Interest paid	<u>\$ 10</u>	<u>\$ 84,889</u>	<u>\$ 84,899</u>



Statistical Section



AEIN offers the finest in prime-time nature and science programs such as NATURE, SCIENTIFIC AMERICAN FRONTIERS and NOVA. These longtime favorites have enlightened and inspired AEIN viewers with subjects ranging from the deepest ocean canyons to the furthest reaches of space. In addition, AEIN also participated in the national Mainline project providing Arkansas middle-school math teachers a nationwide learning network with other top teachers using satellite and computer technology. This is another example of a statewide partnership to advance education in Arkansas.



Table 1
Expenditures By Function
General Fund/Year Ended June 30
(Expressed in Thousands)

	1998	1997	1996	1995
Education	\$1,883,809	\$1,812,291	\$1,690,844	\$1,629,154
Health and human resources	2,496,628	2,437,633	2,297,385	2,067,465
Transportation	635,188	677,638	579,417	483,972
Law, justice and public safety	265,313	282,258	241,228	200,574
Recreation and resource development	177,838	163,937	178,519	150,509
General government	724,127	751,164	783,378	722,077
Regulation of business and professionals	121,450	147,064	130,339	126,415
Debt service	54,876	77,360	27,413	9,184
Capital outlay	110,988	184,003	94,874	73,812
Other				
Total Expenditures	<u>\$6,470,217</u>	<u>\$6,533,348</u>	<u>\$6,023,397</u>	<u>\$5,463,162</u>

NOTE: The expenditures for fiscal years 1994 through 1989 are shown on a cash basis.

Table 2
Revenues By Source
General Fund/Year Ended June 30
(Expressed in Thousands)

	1998	1997	1996	1995
Taxes:				
Personal income	\$1,553,778	\$1,378,162	\$1,328,615	\$1,227,075
Consumer sales	1,476,686	1,435,841	1,364,977	1,312,884
Corporate net income	268,605	236,538	259,056	214,712
Gas and motor carrier	368,050	355,586	353,598	348,296
Other	361,071	312,704	407,647	328,390
Intergovernmental	2,387,385	2,335,367	2,213,786	1,990,879
Licenses, permits and fees	414,338	381,498	355,742	255,279
Investment earnings	90,169	68,888	66,033	48,931
Other	241,826	386,352	361,376	333,038
Total Revenues	<u>\$7,161,908</u>	<u>\$6,890,936</u>	<u>\$6,710,830</u>	<u>\$6,059,484</u>

NOTE: The revenues for fiscal years 1994 through 1989 are shown on a cash basis.

1994	1993	1992	1991	1990	1989
\$1,539,641	\$1,415,624	\$1,384,835	\$1,228,314	\$1,139,096	\$1,505,722
2,834,720	1,885,566	2,571,880	2,052,311	1,531,686	649,905
517,992	510,369	513,979	396,162	340,603	336,553
268,862	240,411	197,277	180,454	149,475	137,175
132,716	136,780	114,284	117,197	120,001	121,123
954,499	757,474	346,702	306,314	269,932	253,177
95,751	85,913	111,519	102,143	99,340	90,827
12,374	45,328	9,920			
6,984	11,912	4,324			
<u>\$6,363,539</u>	<u>\$5,089,377</u>	<u>\$5,254,720</u>	<u>\$4,382,895</u>	<u>\$3,650,133</u>	<u>\$3,094,482</u>

1994	1993	1992	1991	1990	1989
\$1,117,530	\$1,051,909	\$ 970,883	\$ 908,054	\$ 843,986	\$ 779,379
1,220,868	1,429,880	1,039,540	890,592	843,226	804,420
204,027	177,368	152,218	134,812	149,570	131,522
334,691	315,540	349,881	228,985	228,083	249,679
306,335	295,988	202,725	196,552	193,757	210,341
1,731,468	1,625,469	1,519,246	1,296,045	1,060,709	1,047,736
227,750	194,456	182,783	157,621	154,778	136,055
25,483	30,119	12,984	13,561	12,914	12,498
1,473,901	366,649	1,413,874	1,019,139	645,273	264,693
<u>\$6,642,053</u>	<u>\$5,487,378</u>	<u>\$5,844,134</u>	<u>\$4,845,361</u>	<u>\$4,132,296</u>	<u>\$3,636,323</u>

Table 3

**Ratio of Outstanding General Obligation Debt to Assessed Value and Net Debt Per Capita
For the Last Ten Fiscal Years (Expressed in Thousands - Except for Ratio and Per Capita
Data)**

For the Year Ended June 30	Population	Assessed Property Value	General Obligation Debt	Net General Obligation Debt	
				Per Capita	Ratio Assessed Value
1998	2,528	\$20,796,084	\$ 400,402	158.39	0.019
1997	2,510	19,894,960	299,101	119.16	0.015
1996	2,492	18,383,044	244,683	98.19	0.013
1995	2,464	17,020,575	146,729	59.55	0.009
1994	2,436	16,638,626	149,261	61.27	0.009
1993	2,406	15,755,563	148,035	61.53	0.009
1992	2,380	15,200,446	132,040	55.48	0.009
1991	2,360	14,652,881	37,420	15.86	0.003
1990	2,349	13,878,920	28,075	11.95	0.002
1989	2,344	13,252,298	28,675	12.23	0.002

Sources:

Population: State of Arkansas Department of Finance and Administration Economic
Analysis and Tax Research
Assessed Property Value: Assessment Coordination Division of the Public Service Commission

Table 4

**Ratio of Annual Debt Service Expenditures for General Bonded Debt
to Total General Fund Revenues and Expenditures
For the Last Ten Fiscal Years (Expressed in Thousands)**

For the Year Ended June 30	Debt Service	Total Revenue	Ratio	Total Expenditures	Ratio
1998	\$54,876	\$7,161,908	.0077	\$6,470,217	.0085
1997	77,360	6,890,936	.0112	6,533,348	.0118
1996	27,413	6,710,830	.0041	6,023,397	.0046
1995	9,184	6,059,484	.0015	5,463,162	.0017
1994	12,374	6,960,842	.0018	6,363,539	.0019
1993	45,328	5,487,378	.0083	5,089,377	.0089
1992	9,920	5,844,134	.0017	5,254,720	.0019
1991	14,490	4,845,361	.0030	4,382,895	.0033
1990	8,886	4,132,296	.0022	3,650,133	.0024
1989	10,836	3,636,323	.0030	3,094,482	.0035

Table 5
Revenue Bond Coverage
For the Last Ten Years
(Expressed in Thousands)

	<u>Gross Revenue (1)</u>	<u>Direct Operating Expense</u>	<u>Net Revenue Available For Debt Service</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>	<u>Coverage</u>
Arkansas Student Loan Authority							
1998	\$37,510	\$2,572	\$34,938	\$2,100	\$12,200	\$14,300	2.44
1997	33,702	2,360	31,342	8,570	12,554	21,124	1.48
1996	31,471	2,076	29,395	2,575	10,968	13,543	2.17
1995	29,253	2,001	27,252	3,200	10,379	13,579	2.01
1994	22,198	1,673	20,525	3,415	7,470	10,885	1.89
1993	16,257	1,435	14,822	3,680	5,315	8,995	1.65
1992	12,876	1,216	11,660	6,680	3,734	10,414	1.12
1991	12,634	1,067	11,567	3,150	4,612	7,762	1.49
1990	12,627	1,135	11,492	3,400	5,634	9,034	1.27
1989	9,428	1,326	8,102	1,450	3,019	4,469	1.81

(1) Includes principal payments on student loans which are available for debt service.

Table 6
Demographic Statistics
For the Last Ten Years
(Expressed in Thousands)

<u>Calendar Year</u>		<u>Total Population</u>	<u>Per Capita Personal Income</u>	<u>Unemployment Rate</u>
1998	(forecast)	2,528	\$20,115	5.2 %
1997		2,510	19,434	5.3 %
1996		2,492	18,506	5.0 %
1995		2,464	17,684	5.0 %
1994		2,436	16,786	5.7 %
1993		2,406	16,149	6.6 %
1992		2,380	15,325	7.4 %
1991		2,360	14,418	7.1 %
1990		2,349	13,474	6.9 %
1989		2,344	12,752	7.5 %

Source:

State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 7
Economic Statistics
For the Last Ten Years
(Expressed in Millions)

<u>Calendar Year</u>	<u>Gross State Product (Stated in 1992 Dollars)</u>	<u>Personal Income</u>
1998	\$55,195	\$50,862
1997	53,466	48,623
1996	51,203	46,292
1995	49,204	43,453
1994	46,796	41,012
1993	44,350	38,986
1992	42,941	36,469
1991	40,661	34,025
1990	39,735	31,648
1989	39,513	29,891

Source:

State of Arkansas Department of Finance and Administration Economic Analysis and Tax Research

Table 8
Property Values, Taxable Sales, Bank Deposits and Bank Loans
(Expressed in Millions - Except for Bank Number Data)

<u>Calendar Year Ended</u>	<u>Assessed Property Values</u>	<u>Retail Sales</u>	<u>Banks</u>			
			<u>Number</u>	<u>Deposits</u>	<u>Loans</u>	<u>Assets</u>
1998	\$20,796	\$22,991	N/A	N/A	N/A	N/A
1997	19,895	23,047	226	\$24,704	\$17,159	\$28,735
1996	18,383	22,041	233	26,453	17,515	30,633
1995	17,021	20,666	242	24,057	16,298	27,987
1994	16,639	19,295	257	23,431	14,085	27,085
1993	15,756	17,925	257	22,109	12,642	25,164
1992	15,200	16,667	258	21,534	11,636	24,371
1991	14,653	15,712	255	19,388	11,060	21,860
1990	13,879	15,433	257	17,638	10,308	19,990
1989	13,252	14,448	173	7,833	4,650	8,877

N/A - Information not available.

Sources:

Assessed Property Value: Assessment Coordination Division of the Public Service Commission

Taxable Sales: State of Arkansas Department of Finance and Administration
Economic Analysis and Tax Research

Banks: State Bank Department; Arkansas Statistical Abstract 1994

Table 9
Twenty-five Largest Private Sector Employers in Arkansas

	<u>Company</u>	<u>Number of Employees</u>
1.	Wal-Mart Stores Inc.	34,014
2.	Tyson Foods Inc.	19,127
3.	Baptist Health	6,000
4.	Beverly Enterprises Inc.	4,799
5.	Georgia-Pacific Corporation	4,776
6.	ConAgra Inc.	4,409
7.	Alltel Corporation	4,400
8.	Emerson Electric Company	4,139
9.	St. Vincent Infirmary Medical Center	4,000
10.	Baldor Electric Company	3,969
11.	Entergy Corporation	3,800
12.	International Paper Company	3,431
13.	Whirlpool Corporation	3,100
14.	White Consolidated Industries Inc.	3,097
15.	J.B. Hunt Transport Services Inc.	2,900
16.	SBC Communications Inc.	2,900
17.	Dillard Department Stores Inc.	2,784
18.	OK Industries Inc.	2,731
19.	Arkansas Children's Hospital Inc.	2,706
20.	Kroger Co.	2,700
21.	American Greetings Corporated	2,497
22.	Union Pacific Railroad Co.	2,432
23.	Riceland Foods Inc.	2,300
24.	First Commercial Corporation	2,292
25.	Petit Jean Poultry	2,036

1999 Book of Lists, April 6, 1998

Source: The Firms - Arkansas Economic Development Commission

Table 10A
Miscellaneous Public Education Statistics
For the Last Ten Years

<u>School Year Ended</u>	<u>Number of Schools</u>	<u>Average Daily Attendance</u>	<u>Number of Teachers</u>	<u>Pupil-Teacher Ratio</u>
1998	*	*	*	*
1997	1104	426,983	29,415	14.52
1996	1,095	420,901	29,344	14.34
1995	1,095	418,222	28,875	14.48
1994	1,119	414,065	28,550	14.50
1993	1,082	411,306	28,180	14.60
1992	1,095	409,174	28,206	14.51
1991	1,103	406,631	25,360	16.03
1990	1,097	405,586	25,110	16.15
1989	1,101	405,765	24,943	16.27

* - Information not available for 1998.

Source:

Annual Status Report of the Public Schools of Arkansas and Arkansas Statistical Abstract

<u>Calendar Year Ended</u>	<u>Expenditure on Education Per Pupil in Daily Attendance</u>			<u>% Revenue from State Government</u>		
	<u>U.S.</u>	<u>AR</u>	<u>AR Rank</u>	<u>U.S.</u>	<u>AR</u>	<u>AR Rank</u>
1998	*	*	*	*	*	*
1997	*	\$4,383	48	*	67.46 %	*
1996	\$6,103	4,353	48	47.90 %	65.40	7
1995	5,894	4,059	49	46.00	63.60	9
1994	5,730	3,949	49	45.80	62.70	11
1993	5,616	3,928	47	46.90	62.30	11
1992	5,466	3,770	46	47.90	62.80	12
1991	5,261	3,334	48	48.90	61.20	12
1990	4,890	3,272	48	48.70	59.50	13
1989	4,602	3,145	48	49.50	58.60	15

* - Information not available.

Source:

National Education Association Research, Rankings of the States - 1997

Table 10B
Miscellaneous Higher Education Statistics
For the Last Ten Years

Public Institutions

	Fall Net Enrollment	Degrees Awarded		
		Undergraduate	Graduate	Total
1996-97	92,069	13,152	2,910	16,062
1995-96	90,276	12,543	2,729	15,272
1994-95	89,466	11,907	2,823	14,730
1993-94	89,230	11,684	2,754	14,438
1992-93	88,764	11,351	2,641	13,992
1991-92	81,121	9,126	2,408	11,534
1990-91	77,554	8,515	2,297	10,812
1989-90	73,035	8,125	2,370	10,495
1988-89	69,204	7,648	2,433	10,081
1987-88	66,495	7,414	2,387	9,801

Private Institutions

	Fall Net Enrollment	Degrees Awarded		
		Undergraduate	Graduate	Total
1996-97	11,116	1,893	90	1,983
1995-96	10,969	1,786	80	1,866
1994-95	10,703	1,566	59	1,625
1993-94	10,602	1,634	73	1,707
1992-93	10,422	1,675	62	1,737
1991-92	10,145	1,730	63	1,793
1990-91	10,051	1,616	105	1,721
1989-90	9,788	1,601	92	1,693
1988-89	9,609	1,596	85	1,681
1987-88	9,013	1,541	101	1,642

Source:

On-Campus Enrollment and Geographic Origins in Arkansas Higher Education - Fall 1987-1993; Fall Student Enrollments 1994-1996.

Annual Summary Report of Degrees Granted by Arkansas Institutions of Higher Education, 1987-88 to 1994-95; 1995-96 Degrees and Certificates Awarded by Arkansas Higher Education, 1995-96 to 1996-97.



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